



TOWN OF LOS GATOS

CALIFORNIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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**TOWN OF LOS GATOS
CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2015**

**PREPARED BY THE
OFFICE OF THE TOWN MANAGER**

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TOWN HISTORY

The name Los Gatos comes from "El Rancho de Los Gatos." A ranch established in 1839 by a Mexican land grant and so named because of the large number of mountain lions in the area. In 1854, James Alexander Forbes purchased some of this land and built a flour mill. In 1860, the first hotel was opened to provide a stage stop on the toll road which had been built between San Jose and Santa Cruz.

Wheat production gave way to orchards, and rapid growth ensued when the railroad reached Los Gatos in 1878. The residential subdivisions of Broadway, Bayview, Fairview, and Almond Grove were built in the 1880's. By 1887, the population had grown to 1,500 and Los Gatos voted to incorporate.

Fruit industries faded slowly during the Depression and World War II, but the postwar period brought an influx of people producing residential and commercial development. Highway 17 was constructed through the center of Town. Growth levelled off in the early 1970's, leaving Los Gatos with its small-town atmosphere and pedestrian-oriented downtown.

Because of its distance from other centers of population, Los Gatos developed as a complete community including residential, business and industrial elements. Preserving Los Gatos as a complete and well-balanced community has been and remains a prominent goal of the community. From the first 100-acre town site in 1890 with a population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers between 14 and 15 square miles and has a population of 30,505. This relatively slow growth over the first 80 years resulted in a human scale community with narrow streets and small buildings.

As it exists now, Los Gatos' boundaries encompass a wide variety of terrain, ranging from level land to steep and densely wooded hillsides. The sharp visual contrasts among these features and charming architecture create the picturesque setting of the Town. In the midst of an increasingly uniform urban complex, this setting has attracted people with a preference for the Town's distinctive, high quality natural and urban environment.

The slow growth of the Town over an extended number of years has left the Town with a heritage of older, established residential areas and a downtown with many historic buildings representing the various eras in the Town's history. Protection of these historic resources is an important community goal. The Town's two museums, known as the Tait Avenue and Forbes Mill museums, also help to preserve the Town's valued history.

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Introductory Section



TOWN OF LOS GATOS

OFFICE OF THE TOWN MANAGER

(408) 354-6832

FAX: (408) 399-5786

February 15, 2016

Honorable Mayor and Town Council,

I am pleased to submit the Town's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2015. This report was prepared by the Finance Department in conjunction with the Town Manager's office, which assumes responsibility for the accuracy of the data and the completeness and fairness of the presentation and all disclosures. The information in this report is intended to present the reader with a comprehensive view of the Town's financial position and the results of its operations for the fiscal year ending June 30, 2015, along with additional disclosures and financial information designed to enable the reader to gain an understanding of the Town's financial activities.

This report was prepared as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34). This GASB Statement requires management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

This Comprehensive Annual Financial Report is organized into three sections:

- I. The Introductory Section includes the table of contents, letter of transmittal, listing of elected officials, Town administrative personnel, and an organization chart delineating organizational structure.
- II. The Financial Section includes the independent auditors' opinion, the MD&A, the basic financial statements, notes to the financial statements, combining statements of non-major funds, and required supplemental information.
- III. The Statistical Section includes both financial and non-financial data about the Town.

The Comprehensive Annual Financial Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and includes the report of Chavan & Associates LLP, the Town's independent certified public accountants.

This Comprehensive Annual Financial Report will be submitted to the Government Finance Officers Association for consideration to be awarded its Achievement of Excellence in financial reporting certification. This award is granted only to entities whose reports meet the highest standards of municipal financial reporting.

THE REPORTING ENTITY AND ITS SERVICES

Los Gatos is a general law Town, incorporated under the laws of California in 1887. The Town is located in the foothills and level terrain of the Santa Clara Valley, in an area referred to internationally as “Silicon Valley.” From the first 100-acre town site and an 1890 population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers approximately 15 square miles with a population of 30,505. This relatively slow growth over the last 80 years resulted in a human scale community with narrow streets and small buildings. Preserving Los Gatos as a complete and well-balanced community has been, and remains, a prominent goal for the community.

Five council members are elected at large for staggered four-year terms to govern the Town. The Mayor and Vice-Mayor are appointed by the Council from its own ranks and serve for one-year terms. The Town Manager and Town Attorney are appointed and supervised directly by the Council. The Town Manager oversees traditional municipal services such as Public Safety, Parks & Public Works, Community Development, a Public Library, and Town Administration including Human Resources and Finance.

This report includes all funds of the Town of Los Gatos. As of February 1, 2012, in accordance with Assembly Bill 1X26, the Redevelopment Agency (RDA) for the Town of Los Gatos was dissolved. Until its dissolution, the Town of Los Gatos Redevelopment Agency was governed by a board that was the same as the Town’s governing body. Therefore, the financial activities of the Redevelopment Agency through January 31, 2012 had been blended into the Town’s basic financial statements. As a result of the dissolution, the RDA Successor Agency private-purpose trust fund was created while the Certificates of Participation (COP) RDA Debt Service Fund and Redevelopment Agency Low & Moderate Housing Capital Projects Fund were closed out as of June 30, 2012 and are now being held in the Successor Agency Trust fund.

ECONOMIC CONDITIONS AND OUTLOOK

Consistent with other Silicon Valley communities, the economy continues to improve and economically sensitive revenues, such as Property Tax, Transient Occupancy Tax, Business License Tax and License and Permit revenues increased. However, the Town’s Sales Tax revenue decreased slightly due to a change in business model from the Town’s largest sales tax generator (Netflix). The business model change impacted the taxability of internet commerce leading to substantial reduction in taxes collected from this historically significant sales tax generator. Recognizing the continuing loss of this

significant revenue source, diversification remains a top priority for the Town. The Town continued its outreach and support of downtown and local businesses through increased funding of the Economic Vitality Program.

In recent years, the Town has implemented a number of strategies to keep operating revenues in balance with ongoing operating expenditures. These steps included selected hiring freezes, the elimination of vacant positions, organizational realignments, job sharing, and departmental cost saving efficiencies, among other strategies, that have allowed the Town to remain fiscally balanced during challenging economic times. Despite the ongoing strategic reductions made in staffing and operating expenditures salary and benefits was the Town's largest expenditure, reflecting the personal touch required to deliver high quality services such as public safety, community development, and parks and public works.

General Fund revenues (including operating transfer-ins) increased by 6% from the prior year. Property tax revenues are a significant source of support for General Fund operations, comprising approximately 32% of General Fund revenues in FY 2014/15. The FY 2014/15 \$12.9 million property tax receipts were \$1.2 million higher than the prior year's collection, reflecting the continued desirability of the Town, its environment, culture and educational opportunities. Los Gatos property values are anticipated to continue with moderate growth rates for the near term. Property taxes also increased moderately due to a change in property tax distribution due to the dissolution of the California redevelopment agencies, though this increase was a small portion of the loss of redevelopment tax increment previously collected prior to the redevelopment dissolution which occurred in February 2012.

The Town relies heavily on sales tax revenues to support General Fund operations, comprising approximately 20% of General Fund revenues in FY 2014/15. The FY 2014/15 \$8.2 million sales tax receipts were \$0.2 million higher than the prior year's collection. Due to the sales tax declines in recent years related to the change in the Netflix business model the small increase from the prior year is indicative of an improving economy wherein the taxes collected from a diverse business community were able to offset the losses sustained by the business model change. Overall the outlook for sales tax remains promising as many businesses are reporting increased revenues expected for the remainder of calendar year 2015.

Effective February 1, 2012, redevelopment agencies were dissolved and suspended all activities, with the exception of the implementation of existing contracts and payment of enforceable obligations entered into prior to February 1, 2012. While the Successor Agency will continue to receive tax increment revenue to pay enforceable obligations, like debt service, funding for administrative services and various program reimbursements has been significantly limited.

The Town is also preparing for an increase in pension employer rates effective in FY 2015/16. Estimates indicate the Town may be paying 32% more in pension cost in the next 10 years than it is currently costing the Town. However, by Council authority in

June 2014, the Town paid off its pension “side-fund” actuarial liability of \$4.5 million substantially decreasing the Town’s employer contribution rates for pensions in future years. Town Council and staff are considering future opportunities to pro-actively manage and control cost escalation in its pension and other postemployment benefits.

Despite the reductions to various state sources of local government revenue and increasing costs due to unfunded federal and state mandates, the Town has maintained high service levels due to the General Fund’s strong fiscal health through FY 2014/15. The Town continues its outreach to the community, the League of California Cities, and local legislators to prevent and limit any future revenue losses and mandated cost increases.

MAJOR INITIATIVES

Major initiatives addressing the critical capital asset and infrastructure needs of the Town were a priority for the fiscal year. Approximately \$3.8 million in Town infrastructure and other capital asset improvements were made in FY 2014/15, including \$0.7 million in building repairs and improvements, \$0.4 million in vehicle and equipment and \$0.3 million in annual curb, gutter, sidewalk and retaining walls improvements, \$0.2 million for street improvement projects including improvements to major arterials and neighborhood collector streets to enhance pedestrian and traffic safety Town-wide. Town park improvements totaling \$0.1 million, and \$2.0 million in construction in progress in various streets, building improvements and park projects.

Additional infrastructure improvements were scheduled in accordance with the Town’s approved Capital Improvement Plan, and will continue into future years. All of these improvements are funded either through debt issuance, grants, or via revenues accumulated from prior year budget savings and/or excess revenues per Town Council policy.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The effectiveness of internal control is considered in the development and evaluation of the Town’s accounting system. Internal accounting controls are designed to provide reasonable but not absolute assurance regarding:

- 1) safeguarding of assets against loss from unauthorized loss or disposition,
- 2) accuracy and reliability of accounting data, and
- 3) adherence to managerial policy.

The concept of reasonable assurance recognizes that the cost of internal control should not outweigh the benefits, and that management must make estimates and judgments in evaluating these costs and benefits.

All governmental fund types use the modified accrual basis of accounting. This means that revenues are recorded when measurable and available rather than when received. Measurable means the amount can be determined and available means the cash is received within forty-five days after the end of the fiscal year. Expenditures are recorded when the liability is incurred, rather than when paid. An exception to this rule is principal and interest on general long-term debt, which is not recognized by debt service funds until it is due.

Proprietary (internal service) funds are accounted for using the accrual basis of accounting, similar to that used by corporations. Proprietary fund revenues are recognized when they are earned rather than when the cash is received, even if the cash is not available and proprietary fund expenses are recognized when they are incurred.

With the implementation of GASB 34, the Town now prepares its Basic Financial Statements on the accrual basis.

Internal accounting procedures have been developed to provide reasonable assurance regarding the safeguarding of assets and the reliability of financial records for preparing financial statements and maintaining asset accountability.

An annual operating budget and five-year capital improvement plan is adopted by the Town Council on a basis consistent with generally accepted accounting principles. All budget adjustments and transfers between funds must be approved by the Town Council during the fiscal year. The Town Manager is authorized to transfer unencumbered appropriations within a budget category, within a fund. Appropriations are valid for each fiscal year and lapse at year-end.

AWARDS

The Town's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014 was awarded a Certificate of Achievement for Excellence in Financial Reporting by the national Government Finance Officers Association. This prestigious award recognizes the report's conformance with strict accounting and reporting standards established by the Government Accounting Standards Board and government finance organizations. This award is annual in nature and valid for one year only. This year's report will be submitted for award consideration by this organization, as we believe it continues to meet these standards.

INDEPENDENT AUDIT

State law requires an annual audit of the Town's accounts by independent certified public accountants. The accounting firm of Chavan & Associates, LLP performs this function

for the Town of Los Gatos, and their report is included in the financial section of the CAFR.

ACKNOWLEDGEMENTS

The preparation of this Comprehensive Annual Financial Report, as presented herein, is the result of the combined efforts and dedicated services of the excellent staff of the Department of Finance. Special thanks to Jen Callaway, Assistant Town Manager, Mark Gaeta, Accountant; Linda Isherwood, Analyst; Nicole Tram, Payroll Specialist; Gitta Ungvari, Administrative Analyst; and Melissa Ynegas, Account Technician for their efforts in preparing this report.

Respectfully submitted,



Laurel Prevetti
Town Manager



Stephen D. Conway
Director of Finance & Administrative Services

**TOWN OF LOS GATOS
PRINCIPAL OFFICERS
JUNE 30, 2015**

TOWN COUNCIL

Mayor	Marcia Jensen
Vice Mayor	Barbara Spector
Council Member	Steven Leonardis
Council Member	Rob Rennie
Council Member	Marico Sayoc

COUNCIL APPOINTEES

Interim Town Manager	Les White
Town Attorney	Robert Schultz

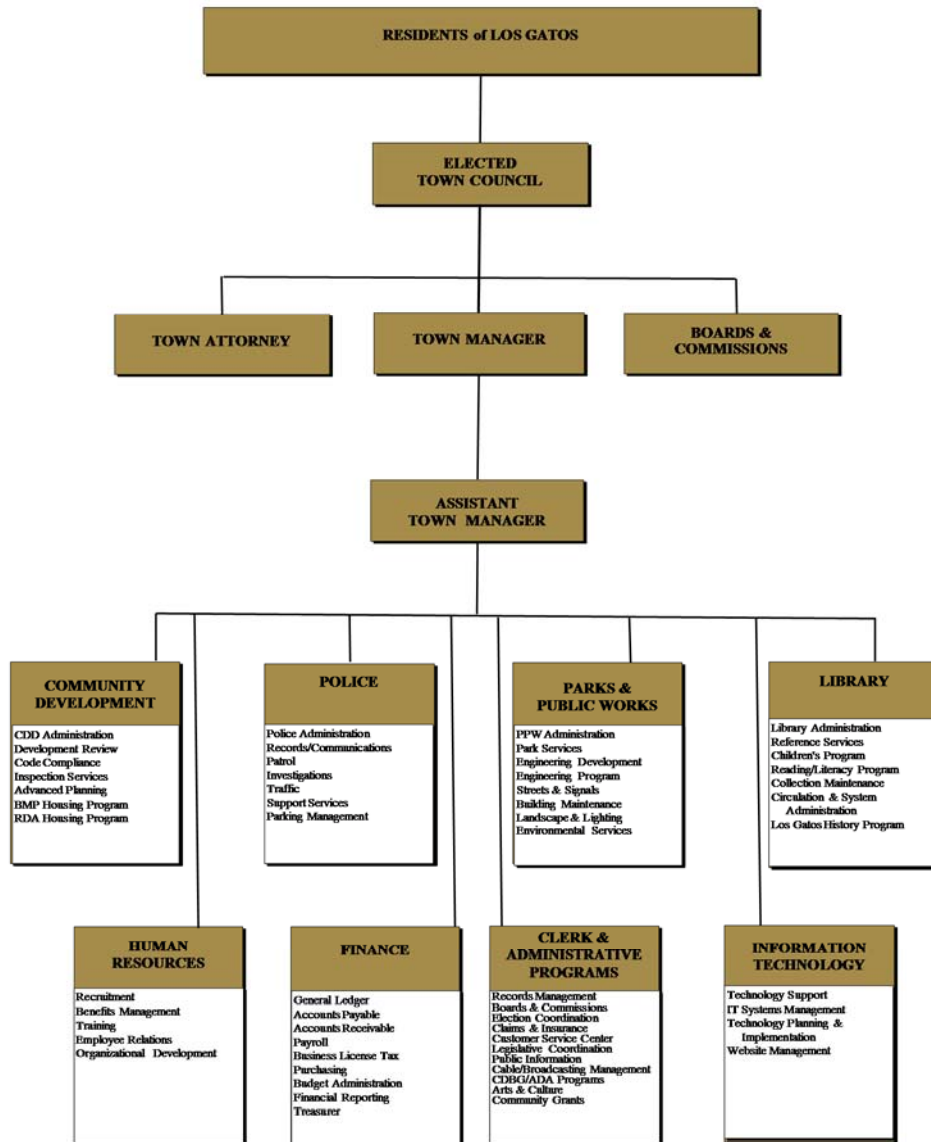
APPOINTED OFFICIALS

Assistant Town Manager/ Community Development	
Director	Laurel Prevetti
Chief of Police	Matt Frisby
Finance and Administrative Services Director	Stephen Conway
Human Resources Director	Rumi Portillo
Parks and Public Works Director	Matt Morley
Town Librarians	Henry Bankhead & Heidi Murphy



Town of Los Gatos

Organizational Structure





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Town of Los Gatos
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

Financial Section



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the
Town Council of the Town of Los Gatos
Los Gatos, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, General Fund budgetary statement, and the aggregate remaining fund information of the Town of Los Gatos (the "Town"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Town's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, General Fund budgetary statement, and the aggregate remaining fund information of the Town of Los Gatos, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements as a whole. The introductory section, combining individual non-major fund statements and schedules, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining individual non-major fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

New Accounting Principles

As discussed in Notes 1 and 9 to the financial statements, the City adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective June 30, 2015 and GASB Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2016 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

C & A LLP

February 12, 2016
San Jose, California

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Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of Los Gatos financial performance provides an overview of the Town's financial activities for fiscal year ending June 30, 2015. This information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Town assets exceeded its liabilities at the close of FY 2014/15 by \$106,531,130 (net position). Of this amount, \$7,180,919 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's Net position decreased by \$35,598,498 due primarily to implementation of new pension reporting standards proscribed by Governmental Accounting Standards Board (GASB) Statement Number 68, Accounting and Financial Reporting for Pensions and the related GASB Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date.
- Total fund balances for governmental funds at year end were \$45,337,871, an increase of \$7,322,632 (19%) from the prior year. Fund balances increased primarily due to higher than expected property tax, transient occupancy tax, and license and permits revenues as well as operational salary savings due to vacancies.
- At the end of FY 2014/15, fund balance for the General Fund was \$24,121,256, approximately 57% of General Fund expenditures for the current fiscal year.
- The Town's total capital assets increased by \$435,914 net of depreciation.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the Town and its component units using the integrated approach as prescribed by GASB Statement No. 34.

Government-Wide Financial Statements

The government-wide financial statements present the financial picture of the Town from the economic resources measurement focus using the accrual basis of accounting.

The statement of net position – presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities – presents information showing how the Town’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activity*). The governmental activities of the Town include public safety, parks and public works, community development, library, community services, debt service, and general government. The Town has no business-type activities.

The government-wide financial statements include not only the Town itself (known as the primary government), but also a legally separate Town of Los Gatos Redevelopment Agency (the Agency) for which the Town was financially accountable. In accordance with Assembly Bill (AB) 1X26 which provides for the dissolution of all redevelopment agencies in the State of California, the Town of Los Gatos agreed to serve as the successor agency and thereby to hold the assets until they were distributed to other units of state and local government. In accordance with AB 1X26, the Town of Los Gatos Redevelopment Agency dissolved and ceased to operate as a legal entity on February 1, 2012.

Prior to February 1, 2012, the final seven months of activity of the redevelopment agency continued to be reported in the governmental funds of the Town. After February 1, 2012, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (RDA Successor Agency private-purpose trust fund) in the financial statements of the Town. Additional information on the dissolution of the RDA and this newly formed fiduciary fund can be found in Note 12 in the notes to basic financial statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Town are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – The Town’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town’s general government operations and the basic services it

provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's operations. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds – The Town maintains one type of proprietary fund: internal service funds. Proprietary funds are reported using the accrual basis of accounting. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses internal service funds to account for its fleet of vehicles and computer equipment, and for its risk management activities. The Internal Service funds have been included within governmental activities in the government-wide financial statements.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the Town. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs.

Included in fiduciary funds is the RDA Successor Agency private-purpose trust fund created upon the dissolution of the former Redevelopment Agency. The Trust Fund was created to hold the assets of the former Redevelopment Agency until they are transferred for governmental purposes to other entities, or distributed to the underlying taxing jurisdictions in Santa Clara County after the payment of enforceable obligations.

Notes to basic financial statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements begin on page 45 of this report.

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$106 million at the end of the current fiscal year.

Town of Los Gatos			
Net Position			
Governmental			
Activities			
	2015		2014
Current and Other Assets	\$ 72,604,823	\$	69,546,911
Capital Assets	93,687,029		93,251,117
Total Assets	166,291,852		162,798,028
Current Liabilities	16,513,842		11,398,556
Long-term Liabilities Outstanding	43,341,162		9,269,844
Total Liabilities	\$ 59,855,004	\$	20,668,400
Net Position			
Investment in Capital Assets,			
Net of Related Debt	\$ 93,687,029	\$	93,251,117
Restricted	5,663,182		4,485,246
Unrestricted	7,180,919		44,393,265
Total Net Position	\$ 106,531,130	\$	142,129,628

Capital assets represent approximately 56% of the Town's total assets consisting of investments made by the Town in permanent or long-lived assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The Town uses these capital assets to provide services to citizens and customers; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

For the current year, *Investment in Capital Assets, Net of Related Debt* increased by approximately \$435,914 as a result of approximately \$3.8 million, net of construction in progress, in capital improvements made during the fiscal year, offset by \$3.4 million in capital assets depreciation and retirements.

An additional portion of the Town's net position (5%) represents resources that are subject to external restrictions on how they may be used. The balance of *Unrestricted net position* may be used to meet the Town's ongoing obligations to citizens, customers, and creditors. The Town's *Unrestricted net position* represents approximately 7% of the Town's net position at year end.

Governmental activities

Town of Los Gatos
Statement of Activities
For the Year Ended June 30, 2015

	Governmental Activities	
	2015	2014
Revenues:		
Program revenues:		
Charges for Services	\$ 13,033,632	\$ 12,473,007
Operating Grants and Contributions	936,645	1,051,419
Capital Grants and Contributions	2,514,859	2,294,239
General Revenues:		
Property Taxes	12,931,603	11,712,312
Property Tax Increments		
Less : Election Amount		
Total Property Taxes	12,931,603	11,712,312
Sales Taxes	8,202,678	8,029,571
Franchise Taxes	2,215,430	2,063,756
Other Taxes	2,062,893	1,654,649
Motor Vehicle in Lieu	-	13,068
Investment Earnings	428,772	772,200
Miscellaneous	813,324	350,468
Special Item		-
Total Revenues	\$ 43,139,836	\$ 40,414,689
Expenses:		
Police Department	\$ 12,644,221	\$ 14,119,786
Parks and Public Works	8,069,352	8,154,616
General Government	6,465,852	6,955,804
Community Development	4,047,738	4,424,040
Library Services	2,553,414	2,234,431
Redevelopment (Pmts to SA)		21,687
Interest and fees		
Sanitation	491,359	363,180
Total Expenses	\$ 34,271,936	\$ 36,273,544
Change in net position	8,867,900	4,141,145
Net position, beginning	142,129,628	137,988,483
Prior Period Adjustment, GASB 68	(44,466,398)	
Net Position - Beginning Adjusted	97,663,230	
Net Position - Ending	\$ 106,531,130	\$ 142,129,628

As shown in the schedule above, governmental activities for the year increased the Town's net position by \$8,867,900. Key elements of the increase in net position are as follows:

- Property tax revenues collected of \$12.9 million accounted 32% of total Town revenues. Property tax revenues for Town activities increased by \$1.2 million or 10%, from FY 2013/14 due primarily to the economic recovery and the continued strong demand for housing in Los Gatos.
- Sales tax revenue of \$8.2 million accounted for approximately 20% of Town total revenues for the year. The 2% increase of approximately \$173,107 from the prior year collections is largely due to the growing economy.
- Other taxes and miscellaneous revenues of \$2.9 million accounted for 7% of total revenues, increasing by 43% from the prior year's amount of \$2,018,185. This increase was primarily the result of the economic recovery and the corresponding increase in economically sensitive revenues like transient occupancy tax.
- Investment earnings of \$428,324, net of amortized premiums, decreased by \$343,876 from the prior year. This decrease is due to the historically low interest rates during FY 2014/15.
- Total expenditures decreased by \$2.0 million or 6% from the prior year. This decrease was primarily the result of salary and benefit cost savings due to high staff vacancies and lowered pension rates as a result of the safety "side fund" payoff.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of the end of FY 2014/15, the Town's governmental funds reported combined ending fund balances of \$45,337,871, an increase of \$7,322,632 in comparison with the prior year. Fund balances increased primarily due to higher than expected property tax, transient occupancy tax, license and permits revenues combined with operational salary savings due to staff vacancies.

Approximately 88% or \$39,674,689 of the total amount of governmental fund balances of \$45,337,871 is assigned or unassigned fund balance, which is available for spending at the Town's discretion. The remainder of fund balance is restricted therefore not available for new spending but limited as to use for (1) providing for appropriated capital projects

(\$5,482,974); and (2) to provide for dedicated repair and maintenance in lighting and landscape districts (\$180,208).

General Fund - The General Fund is the chief operating fund of the Town. It accounts for all financial resources except those required to be accounted for in another fund. At the end of the current fiscal year, the General Fund net fund balance decreased by 4% from prior year balances to \$24,121,256. This decrease was moderated by higher than expected receipt of economically sensitive revenues, combined operational expenditure savings. General Fund expenditures (excluding transfers-out) stayed at the level of the prior fiscal year.

Other Major Funds

General Fund Appropriated Reserve (GFAR) Capital Projects Fund. The GFAR fund is used as the primary capital projects fund for the Town and is used for the acquisition and construction of major capital projects in the Town. Fund balance increased to \$15,346,558 primarily due to capital transfers made in advance during the fiscal year for which expenditures were planned but unexpended.

Other Non-Major Other Governmental Funds. These funds consist primarily of special revenue funds used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular functions or activities of the Town and other non-major capital projects funds. Total fund balances for other non-major other governmental funds increased by \$1,201,766.

Proprietary funds

The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Internal Service Funds - The Town has seven internal service funds: Workers' Compensation, Self Insurance; Stores, Vehicle Maintenance, Facilities Maintenance, Management Information Systems, and Equipment Replacement funds. Revenues to these funds are generated from fees charged to the Town's operating programs for services provided.

The Equipment Replacement Fund charges replacement costs while the Vehicle Maintenance Fund charges vehicle maintenance costs to all user departments based on equipment assignment and usage of equipment. Net operating income before transfers at year end for both funds was \$493,843 and \$86,111 respectively versus \$497,619 and \$139,067 in the prior year. The increase in operating income in the Vehicle Maintenance Fund from the prior year is attributable to reduced operating expenses incurred during the fiscal year. The increase in Equipment Replacement Fund is attributable to the cyclical nature of fleet purchases in accordance with the Town's fleet replacement schedule.

The Building Maintenance, Stores, and Management Information Systems funds charge premiums based on use and labor charges to provide Town-wide building maintenance, mail and office inventory and duplication charges, and management information services. Net operating income (loss) before transfers at year end was \$95,288, (\$38,663) and \$169,970 respectively. Revenues exceeded expenditures in the Building Maintenance Fund due to decreased heating, ventilation and air conditioning maintenance and repair costs experienced in the prior year. The office store expenditures increased because of the additional copiers added to the maintenance lease during FY 2014/15. Management information systems also experienced savings on anticipated repairs and replacements.

The Workers' Compensation and Self Insurance Funds charge premiums based on exposure levels by department for liability, property, workers' compensation and self insurance costs. Net operating income before transfers at year end was (\$59,494) and (\$13,947) respectively, versus (\$670,217) and (\$295,475) in the prior year. The decrease of operating income for the year for these funds reflects the adverse experience of loss claims in the fiscal year as compared to the prior year, in both the Workers' Compensation and general liability claim payments and settlements.

GOVERNMENT FUNDS BUDGETARY HIGHLIGHTS:

Budget Adjustments

Comparing the FY 2014/15 original budget (or adopted) General Fund Expenditures of \$36,451,723 (excluding budgeted transfers-out), the final budget amount of \$36,666,194 shows a net increase of \$214,471. Additions to the original budget included approved encumbrance carry-forwards of \$136,749, and additions of \$77,722 in net miscellaneous adjustments approved by Town Council throughout the fiscal year.

Original Budget	+ Approved Carry- forwards	+ Prior Year Encumbrances	+ Misc. Adjustments & Mid-Year Adjustments	= Final Budget
\$36,451,723	\$136,749	\$-0-	\$77,722	\$36,666,194

The increase in General Fund appropriations occurred primarily from the following selected budget adjustments made during the fiscal year:

- \$136,749 increase due to approved encumbrance carry-forwards.
- \$16,173 increase for Electric Vehicle Lease
- \$15,000 increase for medical exam cost due to a high number of anticipated recruitments needed for FY 2014/15.
- \$25,000 increase for planning services due to increased planning activities.

Comparing the FY 2014/15 final amended budget to the actual result shows \$1.8 million in savings due to operational cost savings including staff vacancies.

Capital Assets

As of June 30, 2015, the Town's investment in capital assets for its governmental activity is recorded at \$93,687,029 (net of accumulated depreciation). The investment in capital assets includes land, buildings and improvements, infrastructure, construction in progress and machinery and equipment. During FY 2014/15 the Town's \$3.8 million investment in capital assets for the current year represented approximately 4% of total assets for governmental activities. Major capital asset events during the current fiscal year include the following:

- \$2.0 million added to Construction in Progress for streets, building improvements and park projects;
- \$0.7 million for building improvements;
- \$0.3 million for annual curb, gutter, and sidewalk improvements and retaining walls;
- \$0.2 million for street improvements;
- \$0.1 million for various Town park improvement projects.

June 30, 2015	
Town of Los Gatos	
Capital Assets (net of accumulated depreciation)	
	Governmental Activities
Infrastructure	\$ 45,622,843
Buildings	22,859,503
Land	20,333,685
Equipment	2,635,542
Construction in Progress	2,235,456
	<hr/>
	\$ 93,687,029

Additional information on the Town's capital assets is found in Note 5 of this financial report.

Economic Factors and Next Year's Budgets and Rates

A product of an ongoing examination of how the Town provides cost-effective services, the Town's budget emphasizes outcomes or results for the community and allows for longer-term financial planning decisions.

During the development and adoption of the Town's FY 2015/16 budget, the Town Council and management considered the following factors:

- The Town anticipates a modest increase in sales tax growth for FY 2015/16. Sales tax estimates of \$8.3 million for FY 2015/16 were budgeted reflecting a slight 0.4% increase from the prior year's adopted sales tax. This reflects the recovering economy and business being positive in many of the Town's business activity categories. However, gains in many of the Town's business categories are offset by the continuing impact of the 2011 business model change in Netflix, an internet

streaming provider, previously accounting for nearly 40% of all sales tax received by the Town. Currently, Netflix represents approximately 12% of total sales taxes collected annually. With sales tax representing approximately 22% of the Town's General Fund revenues, any fluctuation in local sales tax collections will significantly impact the Town.

- General property tax collections represent approximately 32% (not including the State's property tax "backfill" shifts) of the Town's General Fund revenues. Property tax collections are expected to increase 11% from the prior year. This forecast is based on data from the Santa Clara County Tax Assessor's Office. Los Gatos is one of the few cities in Santa Clara County that did not encounter significant loss of assessed valuation during the recent recession and expects positive growth for FY 2015/16.
- The Town's investment portfolio experienced a slight increase in its overall weighted average annual yield, rising from 0.68% at June 30, 2014 to 0.85% at June 30, 2015. Anticipating continued low interest rates for FY 2015/16 coupled with reduced cash balances due to capital expenditures, investment earnings are expected to remain at the same level as the prior fiscal year. Budgeted estimates have been slightly increased to \$319,590 from the adjusted budget estimate of \$310,340 from the prior year.
- Transient Occupancy Tax (TOT) revenues are expected to be higher in FY 2015/16 as personal and business related travel is strong. Given the increase in travel activity, the FY 2015/16 TOT revenues were budgeted at \$1.5 million reflecting an 18% increase from the FY 2014/15 adopted budget.

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors, with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the Stephen Conway, Director of Finance, at 110 East Main Street, Los Gatos, California, 95030, or phone (408) 354-6828.

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Basic Financial Statements

TOWN OF LOS GATOS, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2015

GOVERNMENT-WIDE FINANCIAL STATEMENTS STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The purpose of the Statement of Net Position and the Statement of Activities is to summarize the entire financial activities and financial position of the Town. They are prepared on the same basis of accounting (accrual) used by most businesses, which means they include all the Town's assets and liabilities, as well as its revenues and expenses. The effect of the entire Town's transactions is accounted for, regardless of when cash changes hands, and all material internal transactions between funds have been eliminated.

The Statement of Net Position report the Town's total assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term debt, and presents similar information to the old balance sheet format while focusing the reader on the composition of the Town's net position (assets minus liabilities). The Statement of Net Position summarizes the financial position of the Town's governmental activities in a single column.

The Town's governmental activities include the activities of the General Fund, Special Revenue Funds, Capital Projects Funds and Debt Service Funds. These funds are serviced by the Town's Internal Service Funds; therefore internal service activities are consolidated with governmental activities after eliminating inter-fund transactions and balances.

The Statement of Activities reports increases and decreases in the Town's net position and is prepared on the full accrual basis of accounting, which means it includes all the Town's revenues and expenses regardless of when cash changed hands. This differs from the "modified accrual" basis of accounting used in the fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities presents the Town's expenses before revenues and by program. Program revenues (revenues generated directly by specific programs) are deducted from program expenses to arrive at the net expense of each governmental program, which is offset by general revenues as listed before the change in net position. From these components, the change in net position is computed and reconciled to the Statement of Net Position.

Both of these statements include the financial activities of the Town.

The Statement of Net Position, Statement of Activities, fund financial statements and the notes to financial statements comprise the Basic Financial Statements of the Town. The term "Basic Financial Statements" replaced the term "General Purpose Financial Statements" which is no longer used.

TOWN OF LOS GATOS, CALIFORNIA
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities
ASSETS	
Cash and investments	\$ 67,822,471
Restricted cash and investments	96,595
Receivables:	
Accounts	1,233,915
Interest	127,379
Intergovernmental	1,878,863
Materials, supplies and deposits	26,110
Long term notes receivables	1,419,490
Capital Assets:	
Nondepreciable	22,569,141
Depreciable, net of accumulated depreciation	71,117,888
Total Assets	<u>\$ 166,291,852</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension contributions	\$ 4,300,096
Prepaid pension obligations	4,307,811
Total Deferred Outflows of Resources	<u>\$ 8,607,907</u>
LIABILITIES	
Accounts payable	\$ 1,369,677
Accrued payroll and benefits	2,859,335
Due to other governments	12,872
Unearned Revenue	4,444,921
Deposits	5,305,148
Claims payable	1,002,072
Long-term liabilities:	
Due within one year	
Compensated absences	1,519,817
Due in more than one year	
Postemployment benefits	3,212,390
Net pension liabilities	39,199,892
Compensated absences	928,880
Total Liabilities	<u>\$ 59,855,004</u>
DEFERRED INFLOWS OF RESOURCES	
Difference from actual and projected pension plan earnings	<u>\$ 8,513,625</u>
NET POSITION	
Net investment in capital assets	\$ 93,687,029
Restricted for:	
Capital projects	5,482,974
Lighting and landscape repairs and maintenance	180,208
Total Restricted Net Position	5,663,182
Unrestricted	7,180,919
Total Net Position	<u>\$ 106,531,130</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF LOS GATOS, CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General government	\$ 6,465,852	\$ 1,888,213	\$ -	\$ 176,705	\$ (4,400,934)
Public safety	12,644,221	3,529,166	24,838	-	(9,090,217)
Parks and public works	8,069,352.14	2,206,765	907,745	2,338,154	(2,616,688)
Community development	4,047,737.59	5,027,497	-	-	979,759
Library services	2,553,414.44	53,123	4,062	-	(2,496,229)
Sanitation	491,359.05	328,868	-	-	(162,491)
Total Governmental Activities	<u>\$ 34,271,936</u>	<u>\$ 13,033,632</u>	<u>\$ 936,645</u>	<u>\$ 2,514,859</u>	<u>(17,786,800)</u>
General revenues:					
Taxes:					
Property taxes					12,931,603
Sales taxes					8,202,678
Franchise taxes					2,215,430
Other taxes					2,062,893
Investment earnings					428,772
Miscellaneous					813,324
Total general revenues					26,654,700
Change in Net Position					8,867,900
Net Position - Beginning					142,129,628
Prior Period Adjustment, GASB 68					(44,466,398)
Net Position - Beginning, Adjusted					97,663,230
Net Position - Ending					<u>\$ 106,531,130</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
FUND FINANCIAL STATEMENTS &
MAJOR GOVERNMENTAL FUNDS

Fund Financial Statements:

The Fund Financial Statements only present major funds individually while nonmajor funds are combined in a single column. Major funds are generally defined as having significant activities or balances in the current year. No distinction is made between fund types and the practice of combining like funds and presenting their totals in separate columns has been discontinued along with the use of the General Fixed Assets and General Long-Term Debt Account Groups.

Major Governmental Funds:

The Town determined that the following funds were major funds for the year ended June 30, 2015. Individual non-major funds can be found in the supplemental section.

General Fund is the general operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

TOWN OF LOS GATOS, CALIFORNIA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2015

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash & Investments	\$ 31,338,836	\$ 18,877,396	\$ 5,802,972	\$ 56,019,204
Restricted Cash & Investments	-	-	70,383	70,383
Receivables:				
Accounts	1,200,733	9,036	1,649	1,211,418
Interest	127,379	-	-	127,379
Intergovernmental	1,729,173	-	149,690	1,878,863
Total Assets	\$ 34,396,121	\$ 18,886,432	\$ 6,024,694	\$ 59,307,247
LIABILITIES				
Accounts Payable	\$ 698,260	\$ 405,756	\$ 676	\$ 1,104,692
Accrued Payroll and Benefits	2,828,160	-	1,803	2,829,963
Due to other governments	12,845	-	-	12,845
Unearned revenue	1,158,645	3,134,118	152,158	4,444,921
Deposits	5,305,148	-	-	5,305,148
Compensated Absences	271,807	-	-	271,807
Total Liabilities	10,274,865	3,539,874	154,637	13,969,376
FUND BALANCE				
Restricted for:				
Capital Outlay	-	-	5,482,974	5,482,974
Repairs and Maintenance	-	-	180,208	180,208
Assigned to:				
Open Space	562,000	-	-	562,000
Postemployment Medical	400,000	-	-	400,000
Parking	-	1,460,210	-	1,460,210
Sustainability	140,553	-	-	140,553
Productivity Enhancements	100,000	-	-	100,000
Economic Uncertainty	4,178,192	-	-	4,178,192
Capital Projects	9,511,527	13,836,971	-	23,348,498
Carryover	99,284	-	-	99,284
Comcast PEG	-	49,377	-	49,377
Revenue Stabilization Fund	6,621,808	-	-	6,621,808
Special Studies	490,000	-	-	490,000
Special Revenue Funds	-	-	206,875	206,875
Unassigned	2,017,892	-	-	2,017,892
Total Fund Balances	24,121,256	15,346,558	5,870,057	45,337,871
Total Liabilities and Fund Balances	\$ 34,396,121	\$ 18,886,432	\$ 6,024,694	\$ 59,307,247

The notes to the financial statements are an integral part of this statement.

TOWN OF LOS GATOS, CALIFORNIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET
POSITION – GOVERNMENTAL ACTIVITIES
JUNE 30, 2015

Fund Balance - Total Governmental Funds \$ 45,337,871

Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds because of the following:

CAPITAL ASSETS

Capital assets used in the Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds. 93,687,029

ALLOCATION OF INTERNAL SERVICE FUND NET POSITION

Internal service funds are used by management to charge the cost of management of certain activities such as insurance, central services and maintenance to individual governmental funds. The net current assets of the internal service funds are therefore included as Governmental Activities in the Statement of Net Position. 8,429,146

DEFERED OUTFLOWS OF RESOURCES

Contributions made to pension plans will not be included in the calculation of the City's net pension liability of the plan year included in this report and have been deferred and reported as deferred outflows of resources. 8,432,194

DEFERRED INFLOWS OF RESOURCES

The difference between projected and actual earnings from pension plan assets is not included in the plan's actuarial study until the next fiscal year and are reported as deferred inflows of resources in the Statement of Net Position. (8,097,086)

LONG-TERM LIABILITIES

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the Governmental Funds.

Net Pension Liabilities	\$ (37,288,234)	
Postemployment Benefits	(3,212,390)	
Compensated absences	(2,176,890)	
	(42,677,514)	(42,677,514)

LONG-TERM NOTES RECEIVABLES

In governmental funds, notes receivables are not available to pay for current period expenditures and, therefore, are offset by deferred revenue. 1,419,490

Net Position - Governmental Activities \$ 106,531,130

The notes to the financial statements are an integral part of this statement.

TOWN OF LOS GATOS, CALIFORNIA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes	\$ 12,905,526	\$ -	\$ 37,723	\$ 12,943,249
Sales Taxes	8,202,678	-	-	8,202,678
Other Taxes	1,926,934	-	135,959	2,062,893
Licenses & Permits	5,346,131	853,946	267,694	6,467,771
Intergovernmental	1,004,661	859,119	1,057,222	2,921,002
Charges for Services	5,171,326	294,192	328,868	5,794,386
Fines and Forfeitures	868,547	-	17	868,564
Franchise Fees	2,215,430	-	-	2,215,430
Interest	430,476	6,806	(8,547)	428,735
Use of Property	32,209	-	-	32,209
Other	2,606,223	521,402	3,350	3,130,975
Total Revenues	40,710,141	2,535,465	1,822,286	45,067,892
EXPENDITURES				
Current:				
General Government	8,647,451	-	-	8,647,451
Public Safety	13,747,198	-	-	13,747,198
Parks and Public Works	5,631,105	187,960	21,032	5,840,097
Community Development	4,218,500	-	-	4,218,500
Library Services	2,268,844	-	-	2,268,844
Sanitation and Other	-	-	411,863	411,863
Capital Outlay	348,797	3,451,681	-	3,800,478
Total Expenditures	34,861,895	3,639,641	432,895	38,934,431
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,848,246	(1,104,176)	1,389,391	6,133,461
OTHER FINANCING SOURCES (USES)				
Transfers in	504,376	8,372,844	100,000	8,977,220
Transfers (out)	(7,386,491)	(113,933)	(287,625)	(7,788,049)
Total Other Financing Sources (Uses)	(6,882,115)	8,258,911	(187,625)	1,189,171
NET CHANGES IN FUND BALANCES	(1,033,869)	7,154,735	1,201,766	7,322,632
BEGINNING FUND BALANCES	25,155,125	8,191,823	4,668,291	38,015,239
ENDING FUND BALANCES	\$ 24,121,256	\$ 15,346,558	\$ 5,870,057	\$ 45,337,871

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS, CALIFORNIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 7,322,632

Amounts reported for Governmental Activities in the Statement of Activities are different because of the following:

LONG-TERM PREPAID PENSION OBLIGATIONS

Prepaid pension obligations reported as expenditures in the governmental funds are converted to long-term prepaid assets and amortized over service periods identified plan valuation reports. (226,727)

CAPITAL ASSET TRANSACTIONS

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets (additions)	\$ 3,800,478	
Current Year Depreciation	(3,322,653)	477,825

Gains and losses from the disposal of capital assets are not considered current financial resources and are not recorded in the governmental fund statement of revenues and expenditures but are recorded in the government-wide statement of activities because they are economic resources. (41,911)

ACCRUAL OF NON-CURRENT ITEMS

The amount below included in the Statement of Activities does not require the use of current financial resources and therefore is not reported in the governmental funds:

Compensated absences	(200,883)
Postemployment benefits	835,614

PENSION PLAN CONTRIBUTIONS AND EXPENSE

In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the Government-Wide Statement of Activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources. 1,027,695

ALLOCATION ON INTERNAL SERVICE FUND ACTIVITY

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service fund is reported with governmental activities. (322,887)

LONG TERM NOTES RECEIVABLES AND ASSOCIATED DEFERRED REVENUE

Interest income and proceeds from long term notes receivables is recorded on the Statement of Activities but is considered a resource not available for governmental funds (3,458)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 8,867,900

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS, CALIFORNIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 10,896,590	\$ 10,896,590	\$ 12,905,526	\$ 2,008,936
Sales Taxes	8,303,962	8,079,277	8,202,678	123,401
Other Taxes	1,281,200	1,507,000	1,926,934	419,934
Franchise Fees	2,076,030	2,076,030	2,215,430	139,400
Licenses & Permits	4,321,176	4,859,666	5,346,131	486,465
Intergovernmental	734,300	797,788	1,004,661	206,873
Charges for Services	4,244,556	4,310,821	5,171,326	860,505
Fines and Forfeitures	722,800	722,800	868,547	145,747
Interest	268,171	279,019	430,476	151,457
Use of Property	42,169	31,321	32,209	888
Other	2,609,351	2,761,554	2,606,223	(155,331)
Total Revenues	35,500,305	36,321,866	40,710,141	4,388,275
EXPENDITURES				
Current:				
General Government:				
Town Council	211,561	211,561	208,491	3,070
Town Attorney	258,984	264,684	260,740	3,944
Administrative Services	2,971,714	3,010,850	2,955,822	55,028
Non-Departmental	5,652,044	6,368,796	5,222,398	1,146,398
Total General Government	9,094,303	9,855,891	8,647,451	1,208,440
Public Safety	14,895,320	14,229,916	13,747,198	482,718
Community Development	4,076,729	4,099,200	4,218,500	(119,300)
Parks & Public Works	6,035,432	6,075,113	5,631,105	444,008
Library Services	2,349,939	2,349,939	2,268,844	81,095
Capital Outlay	-	56,135	348,797	(292,662)
Total Expenditures	36,451,723	36,666,194	34,861,895	1,804,299
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(951,418)	(344,328)	5,848,246	6,192,574
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	629,420	679,420	504,376	(175,044)
Operating Transfers Out	(7,141,691)	(7,436,691)	(7,386,491)	50,200
Total Other Financing Sources (Uses)	(6,512,271)	(6,757,271)	(6,882,115)	(124,844)
NET CHANGES IN FUND BALANCES	<u>\$ (7,463,689)</u>	<u>\$ (7,101,599)</u>	(1,033,869)	<u>\$ 6,067,730</u>
BEGINNING FUND BALANCE			25,155,125	
ENDING FUND BALANCE			<u>\$ 24,121,256</u>	

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**PROPRIETARY FUNDS -
INTERNAL SERVICE FUNDS**

Internal service funds account for Town operations financed and operated in a manner similar to a private business enterprise. The intent of the Town is that the cost of providing goods and services to other Town funds be financed through user charges to those funds.

TOWN OF LOS GATOS, CALIFORNIA
PROPRIETARY FUNDS -
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities Internal Service Funds
ASSETS	
Current Assets:	
Cash & investments	\$ 11,803,267
Restricted cash & investments	26,212
Accounts Receivable	22,497
Materials, supplies, and deposits	26,110
Total current assets	<u>11,878,086</u>
Noncurrent Assets:	
Capital assets, net of accumulated depreciation	<u>3,427</u>
Total Assets	<u><u>\$ 11,881,513</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension contributions	<u><u>\$ 175,713</u></u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 264,985
Accrued payroll and benefits	29,372
Due to other governments	27
Total current liabilities	<u>294,384</u>
Noncurrent liabilities:	
Claims payable	1,002,072
Net pension liabilities	1,911,658
Total noncurrent liabilities	<u>2,913,730</u>
Total Liabilities	<u><u>\$ 3,208,114</u></u>
DEFERRED INFLOWS OF RESOURCES	
Difference from actual and projected pension plan earnings	<u><u>\$ 416,539</u></u>
NET POSITION	
Invested in capital assets, net of related debt	\$ 3,427
Restricted for workers compensation claims	26,212
Unrestricted	<u>8,402,934</u>
Total Net Position	<u><u>\$ 8,432,573</u></u>

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS, CALIFORNIA
 PROPRIETARY FUNDS -
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Governmental Activities Internal Service Funds
OPERATING REVENUES	
Charges for services	\$ 4,269,954
Interest	5
Use of money and property	220,490
Other local taxes	135,959
Other	513,388
	<hr/>
Total Operating Revenues	5,139,796
	<hr/>
OPERATING EXPENSES	
Salaries and related expenses	1,166,933
Insurance expenses	277,842
Depreciation	956
Services and Supplies	2,828,737
	<hr/>
Total Operating Expenses	4,274,468
	<hr/>
Operating Income	865,328
	<hr/>
Transfers in (Note 4)	531,066
Transfers out (Note 4)	(1,720,237)
	<hr/>
Net transfers	(1,189,171)
	<hr/>
Change in Net Position	(323,843)
	<hr/>
BEGINNING NET POSITION	10,934,182
PRIOR PERIOD ADJUSTMENT GASB 68	(2,177,766)
	<hr/>
BEGINNING NET POSITION, ADJUSTED	8,756,416
	<hr/>
ENDING NET POSITION	<u><u>\$ 8,432,573</u></u>

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS, CALIFORNIA
 PROPRIETARY FUNDS -
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 5,118,776
Payments to suppliers	(1,804,936)
Payments to employees	(1,185,715)
Claims paid	(1,595,212)
Net cash provided (used) by operating activities	<u>532,913</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers In	531,066
Transfers Out	(1,720,237)
Net cash provided (used) by noncapital financing activities	<u>(1,189,171)</u>
Net Increase(Decrease) in Cash and Investments	(656,258)
Cash and investments - beginning of year	<u>12,485,737</u>
Cash and investments - end of year	<u><u>\$ 11,829,479</u></u>
Reconciliation of Operating Income to Cash Flows	
from Operating Activities:	
Operating Income	\$ 865,328
Adjustments to reconcile operating income to cash flows	
from operating activities:	
Depreciation	956
Pension expense adjustment (GASB 68)	(25,283)
Change in assets and liabilities:	
Receivables, net	(21,022)
Other assets	1,633
Accounts payable and other accrued expenses	(31,510)
Other accrued expenses	(257,189)
Cash Flows From Operating Activities	<u><u>\$ 532,913</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

FIDUCIARY FUNDS

Trust funds are used to account for assets held by the Town as a trustee agent for individuals, private organizations and other governments. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

Library Private Purpose Trust Fund was established to provide for the servicing of donations and bequests to the Town's Library Program.

RDA Successor Agency Private Purpose Trust Fund was established to account for the assets and liabilities transferred from the dissolution of the Town's former Redevelopment Agency and the continuing operations related to existing Redevelopment Agency obligations.

Agency funds are used to account for assets held by the Town as an agent for individuals, private organizations and other governments. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate Fiduciary Fund financial statements. Agency funds have no measurement focus.

Parking Improvement District Agency Fund was established to account for non-obligation bond debt service payments and assessments.

**TOWN OF LOS GATOS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015**

	Total Private Purpose Trust Funds	Agency Fund <u>Parking Improvement District #88</u>
ASSETS		
Cash and investments (Note 2)	\$ 2,313,141	\$ 179,204
Restricted cash and investments (Note 2)	1,963,357	-
Loans receivable (Note 3)	540,433	-
Capital assets (Note 5):		
Nondepreciable	5,257,422	-
Depreciable, net of accumulated depreciation	<u>1,932,161</u>	<u>-</u>
 Total Assets	 <u><u>\$ 12,006,514</u></u>	 <u><u>\$ 179,204</u></u>
LIABILITIES		
Accounts payable	\$ 20,402	\$ -
Due to other governments (Note 13)	123	179,204
Interest payable	381,097	-
Long-term debt (Note 6):		
Due within one year	1,025,000	-
Due in more than one year	<u>20,414,820</u>	<u>-</u>
 Total Liabilities	 <u><u>\$ 21,841,442</u></u>	 <u><u>\$ 179,204</u></u>
NET POSITION		
Held in trust	<u>\$ (9,834,928)</u>	
 Total Net Position	 <u><u>\$ (9,834,928)</u></u>	

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS
PRIVATE PURPOSE TRUST FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>Total</u>
ADDITIONS	
Investment earnings	\$ 13,015
Gifts, bequests and endowments	37,303
Other	<u>2,067,483</u>
 Total Additions	 <u>2,117,801</u>
 DEDUCTIONS	
Program expenses of former RDA	106,570
Payments to other governments	38,213
Interest and fiscal agency expenses of RDA	880,881
Library services	87,741
Depreciation expense	<u>101,693</u>
 Total Deductions	 <u>1,215,098</u>
 CHANGE IN NET POSITION	 902,703
 NET POSITION - BEGINNING OF YEAR	 <u>(10,737,631)</u>
 NET POSITION - END OF YEAR	 <u>\$ (9,834,928)</u>

The notes to the financial statements are an integral part of this statement.

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Notes to Basic Financial Statements

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Financial Reporting Entity

The Town of Los Gatos (the “Town”) operates under a Council-Manager form of government and provides the following services; public safety (including police, emergency management and fire services), parks and public works, community development, community services, library, sanitation, public improvements, planning and zoning, general administration services, and redevelopment. Redevelopment services were provided primary through the Redevelopment Agency of the Town which was dissolved on February 1, 2012.

The Town is largely a residential community located in the foothills of the Santa Cruz Mountains and was incorporated as a municipal corporation in 1887. The Town’s population as of January 1, 2015 was 30,505.

As required by generally accepted accounting principles, these financial statements present the Town as the Primary Government and any component units for which the Town is considered financially accountable.

B. Description of Blended Component Units

The Town did not report any component units as a part of the primary government because the Town Council was not the governing body of any entities and no separate entity provided services entirely to the Town.

C. Description of Joint Ventures and Public Entity Risk Pool

As described in Note 11, the Town participates in two joint ventures and public entity risk pool activities through formally organized separate legal entities. The financial activities of the ABAG PLAN Corporation (“ABAG”) and the Local Agency Workers’ Compensation Excess Joint Powers Authority (“LAWCX”) are not included in the accompanying basic financial statements as boards separate from and independent of the Town administer them.

D. Basis of Presentation

The Town’s Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board (“GASB”) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*, No. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

These Statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government (the Town). These statements include the financial activities of the overall Town government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements present *governmental activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meet the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, *proprietary* and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column. All remaining governmental are aggregated and reported as nonmajor funds.

Internal service funds of the Town (which provide services primarily to other funds of the Town) are presented, in summary form, as part of the proprietary fund financial statements. Since the principal users of the internal services are the Town's governmental activities, financial activities of the internal service funds are presented in the governmental activities column when presented at the government-wide level. The costs of these services are allocated to the appropriate function/program in the Statement of Activities.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

E. Major Funds

GASB defines major funds and requires that the Town's major governmental funds be identified and presented separately in the fund financial statements. All other funds, called nonmajor funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have assets, deferred outflows of resources, liabilities, deferred outflows of resources, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The Town may also select other funds it believes should be presented as major funds.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

The Town reported the following major governmental funds in the accompanying financial statements:

General Fund is the general operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

The Town also reports the following fund types:

Internal Service Funds are used to account for services, which are provided to other departments on a cost-reimbursement basis. Those services include workers compensation, self-insurance, stores, vehicle maintenance, building maintenance, management information, and equipment replacement.

Fiduciary Funds include Private-Purpose Trust Funds and agency funds used to account for assets held by the Town as an agent for individuals, private organizations, and other governments. The financial activities of this fund are excluded from the government-wide financial statement but are presented in a separate Fiduciary Fund financial statement.

The Town reported the following Fiduciary Funds in the accompanying financial statements:

Library Private Purpose Trust Fund provides for the servicing of donations and bequests to the Town's Library Program and includes the following:

- **History Project Private Purpose Trust Fund** was established to provide for the servicing of donations, bequests, grant monies and expenditures to the history project partnership of Los Gatos Public Library and the Museum of Los Gatos.
- **Clelles Ness Private Purpose Trust Fund** was established by Ansten R. Ness, M.D. and the Board of Library Trustees for the Town of Los Gatos, as a memorial to his wife, Clelles Ness to use the income and principal of the trust estate to provide materials and services not ordinarily available from public funds.
- **Susan E. (Betty) McClendon Private Purpose Trust Fund** is a bequest to the Los Gatos Public Library from the estate of Susan McClendon was established to be used solely for children's services.
- **Barberra J. Cassin Private Purpose Trust Fund** is a bequest to the Town from the estate of Barberra J. Cassin was established to be distributed to the Los Gatos Public Library for the purpose of establishing an endowment fund, which is to be used for the support of science, the arts and humanities projects.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

RDA Successor Agency Private Purpose Trust Fund accounts for the assets, liabilities and operations transferred from the dissolution of the Town's Redevelopment Agency, which includes the following:

- Certificates of Participation issued to finance several capital improvement projects throughout the Town.
- Redevelopment projects and related property tax revenue.
- Affordable Housing Set-Aside Program obligations.
- Repayment of obligations incurred by the Town's Redevelopment Agency prior to its dissolution.

Parking Improvement District Agency Fund was established to account for non-obligation bond debt service payments and assessments.

F. Basis of Accounting

The government-wide and fiduciary fund (except for agency funds) financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place. Agency funds have no measurement focus.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The Town considers property tax revenues reported in the governmental funds to be available if the revenues are collected or are reasonably expected to be collected within sixty days after year-end. For revenues other than property taxes, the Town generally applies the sixty-day period rule but would make exceptions considering the *measurable* and *available* criteria. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which is recognized upon becoming due and payable; and except for claims, judgments and compensated absences, which are recognized when estimable and probable. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property and sales taxes, certain intergovernmental revenues, and interest revenue. Fines, forfeitures, licenses and permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the Town gives or receives value without directly, receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

The Town may fund programs with a combination of cost-reimbursement grants, categorical block grants and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The Town's policy is to first apply restricted grant resources to such programs followed by general revenues as necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

The Town applies all applicable GASB pronouncements for certain accounting and financial reporting guidance including those applicable to accounting and reporting for proprietary operations. In December of 2010, GASB issued *GASB No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements.

Pension Expense - For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plans (the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Cash Equivalents - The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State of California statutes and the Town's investment policy authorize the Town to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, collateralized, non-negotiable certificates of deposits, commercial paper rated A-1/P-1, medium-term corporate notes rated A or its equivalent or better by Moody's or Standard & Poor's, asset backed corporate notes, bankers' acceptances, mutual funds, and the State Treasurer's investment pool (Local Agency Investment Fund).

The Town does not enter into repurchase or reverse repurchase agreements.

Investments - Town investments are reported at fair value. The value is determined based upon market closing prices. The fair value of mutual funds is stated at share value.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

Materials, Supplies and Deposits - These assets are held for consumption and are stated at cost using the first-in, first-out method. The costs are recorded as expenditures at the time the item is consumed.

Interfund Receivables and Payables - Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/advances from other funds”. All other outstanding balances between funds are reported as “due to/from other funds”.

Advances - Advances between funds and due from/to other funds are offset by a nonspendable fund balance in applicable Town funds to indicate the extent to which they are not available for appropriation and are not expendable available financial resources.

Capital Assets - Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Capital assets, including infrastructure, are recorded if acquisition or construction costs exceeds \$10,000.

As required by GASB, the Town depreciates capital assets with limited useful lives over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year’s pro rata share of the cost of capital assets. The Town depreciates using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated.

The Town has assigned the useful lives listed below to capital assets:

Buildings	25-40 years
Improvements	25-40 years
Machinery and equipment	2-20 years
Furniture and fixtures	5-12 years
Software	5-7 years
Infrastructure	20-40 years

Major capital outlay for capital assets and improvements are capitalized as projects are constructed.

Capital assets may be acquired using federal and state grants, contributions from developers, and contributions or grants from other governments. GASB 34 requires that these contributed assets be accounted for as revenue at the time they are contributed.

Deferred Compensation Plan - The Town established a deferred compensation plan created in accordance with California Government Code Section 53212 and Internal Revenue Code Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Deferred compensation plans are not reported as

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

part of the Town's assets or liabilities, as the deferred compensation plan trustees hold those funds in trust on behalf of employees until the employees are eligible to receive the benefits.

Compensated Absences - Accumulated Vacation, Sick Pay and Other Employee Benefits are accrued as earned. Upon termination, employees are paid for all unused vacation at their current hourly rates. Sick leave earned is cashed out based on the following schedule for employees with at least 150 hours accrued and up to a maximum amount as specified under labor contract provisions:

For employees under contract 1-59 months	25.0%
For employees under contract 60-119 months	37.5%
For employees under contract 120 months or more	50.0%

The Town's liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as liabilities of each fund; the long-term portion is recorded in the Statement of Net Position.

The changes of the compensated absences were as follows:

Beginning Balance	\$ 2,281,656
Additions	1,070,315
Payments	(903,274)
Ending Balance	<u>\$ 2,448,697</u>
Current Portion	<u><u>\$ 1,519,817</u></u>

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General fund. Only compensated absences related to terminated employees are reported in the fund financial statements.

Unearned Revenue - Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unearned revenue.

Long-Term Liabilities - In the government-wide financial statements and private-purpose trust funds long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Deferred Inflows of Resources - Deferred outflows of resources is a consumption of net position by the Town that is applicable to a future reporting period, for example, prepaid items and deferred charges.

Deferred inflows of resources is an acquisition of net position by the Town that is applicable to a future reporting period, for example, unearned revenue and advance collections.

Net Position - In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position.

Restricted Net Position - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position - This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

Fund Balances - The Town does not have a policy identifying a minimum unassigned fund balance. Because amounts in the nonspendable, restricted, committed, and assigned categories are subject to varying constraints on their use, the remaining fund balances are otherwise unassigned.

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Town classifies governmental fund balances as follows:

Non-spendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the Town Council.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

Assigned includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Town Manager or the Finance Director.

Unassigned includes fund balances within the funds which have not been classified within the above mentioned categories.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Town would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the dates of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting periods. Actual results could differ from those estimates.

Subsequent Events - Management has considered subsequent events through February 12, 2016, the date which the financial statements were available to be issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

Property Tax Levy, Collection and Maximum Rates - State of California Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be adjusted by no more than 2% per year unless the property is sold, transferred, or substantially improved. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among the counties, cities, school districts and other districts.

The County of Santa Clara assesses properties, bills for and collects property taxes on the following schedule:

	<u>Secured</u>	<u>Unsecured</u>
Valuation/lien dates	January 1	January 1
Levy dates	January 1	January 1
Due dates (delinquent as of)	50% on November 1 (December 10) 50% on February 1 (April 10)	March 1 (August 31)

The term "unsecured" refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed. Property taxes levied are recorded as

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revenue and receivables when they are collected during the fiscal year of levy or within 60 days of year-end.

Budgets and Budgetary Accounting - The Town follows the procedures below when establishing the budgetary data reflected in the financial statements:

1. The Town Manager submits to the Town Council a proposed operating and capital improvement budget for the fiscal year commencing the following July 1. The budgets include the proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through adoption of Town resolution by Council.
4. The Town Manager is authorized to implement the programs as approved in the adopted budget. Within a specific fund, the Town Manager may transfer appropriations between categories, departments, projects and programs as needed to implement the adopted budget, whereas the Town Council must authorize budget increases and decreases, and transfers between funds.
5. Budgets are adopted on a basis consistent with generally accepted accounting principles except for proprietary funds which budget for capital outlays but not depreciation. Budgets were adopted for the General Fund, Special Revenue Funds, Internal Service Funds and Capital Projects Funds.
6. Budgeted amounts are as originally adopted or as amended by Town Council. Individual amendments were not material in relation to original appropriations.

Excess of Expenditures over Appropriations - There were no significant expenditures in excess of budget during for the year ended June 30, 2015.

Encumbrances - Under encumbrance accounting, purchase orders, contract and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all funds. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities; unexpended and unencumbered appropriations lapse at year end in all funds. Encumbered appropriations are carried forward to the following year.

Reclassifications - Certain accounts in the prior-year financial statements have been reclassified for the presentation in the current-year financial statements.

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G. Accounting and Reporting Changes

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (Issued 06/12)*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement has been implemented as of June 30, 2015 resulting in a prior period adjustment of \$44,466,398. See Note 9 for information related to the financial statement impact of this statement.

GASB Statement No. 69 – In January, 2013, GASB issued Statement No. 69, *Government Combinations and Disposal of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposal of government operations. As used in this Statement, combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. There was no financial statement effect related to this Statement.

GASB Statement No. 70 – In April, 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). The Town does not participate in nonexchange financial guarantees. Therefore, this Statement had no financial statement effect.

GASB Statement No. 71 – In November, 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement were required to be applied simultaneously with the provisions of Statement 68 and have been implemented as of June 30, 2015. See Note 9 for information related to the financial statement impact of this statement.

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NOTE 2 - CASH AND INVESTMENTS

The Town pools cash from all sources and all funds except Restricted Cash and Investments so that it can be invested at the maximum yield, consistent with safety and liquidity, while existing funds have cash available for expenditures.

Cash and Investments Defined - The Town includes only cash deposits in banks as cash. Investments in LAIF and government securities mutual funds are net in the order of liquidity, since they may be withdrawn without penalty. U.S. Treasuries, U.S. Agencies and Certificates of Deposit are the Town's least liquid investments, since they must be held to maturity.

Cash Deposits with Banks and Custodial Credit Risk - California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Town's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law this collateral is held in the Town's name and places the Town ahead of general creditors of the institution. The Town has waived collateral requirements for the portion of deposits covered by Federal Depository Insurance Corporation (FDIC).

The bank balance of the Town's cash deposits was \$19,812,497 as of June 30, 2015. The bank balance and the carrying amount differed due to deposits in transit and outstanding checks. The FDIC insured the bank balances up to \$250,000 for each bank. As of June 30, 2015, the Town's cash balances exceeded FDIC by \$19,312,497 but were collateralized as discussed above.

Investments - The Town and its fiscal agent invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called "securities instruments," or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to maximize security, the Town employs the Trust department of a bank as the custodian of all its investments, regardless of their form.

The Town invests in the California State Treasurer's Local Agency Investment Fund (LAIF). LAIF, established in 1977, is regulated by California Government Code Section 16429 and under the day to day administration of the State Treasurer. As of June 30, 2015, LAIF had approximately \$69.6 billion in investments.

LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost of best estimate for those securities where market value is not readily available. The Town's investments with LAIF at June 30, 2015 included a portion of the pooled funds invested in structured notes and asset-backed securities. These investments are described as follows:

1. **Structured Notes** are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and / or that have embedded forwards or options.

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2. Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2015, the Town had \$4,171,610 invested in LAIF, which had invested .79% of the pool investments funds in Structured Notes and Asset-Backed Securities. The Town valued its investments with LAIF by multiplying its account balance with a fair value factor determined by LAIF. This factor was 1.0004 and was the result of dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost.

Risk Disclosures - *Interest Rate Risk* is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. One of the ways that the Town manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is provided in the summary of cash and investments table on page 42 that shows the distribution of the Town's investments by maturity.

Credit Risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The summary of cash and investments table on page 42 shows the minimum rating under the actual rating of the Town's investments at year end.

Custodial Credit Risk is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town's investment in money market fund and LAIF is not categorized as to custodial credit risk. Its U.S. Government Agency Securities investment is held by a third party financial institution under the third party's trust department's name and thus not exposed to custodial credit risk.

Concentration of Credit Risk is the risk that the Town's investments are exposed because the types of investments have been too limited. The Town's Policy states that, with the exception of US Treasury securities and LAIF, no more than 50% of the Town's total investment portfolio will be invested in one single security type or with a single financial institution. The Town was in compliance with this policy as of June 30, 2015.

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The following table summarizes the Towns policy related to maturities and concentration of investments:

Investment Type	Maximum Maturity	Maximum Portfolio Percentage
US Treasury Obligations	5 years	None
US Agency Obligations	5 years	None
Bankers Acceptances	180 days	15%
Commercial Paper	180 days	15%
Medium Term Notes	3/5 years	15%
Collateralized CD's	5 years	15%
CA LAIF	NA	65%
Money Market Funds	NA	15%

Marking Investments to Fair Value - The Town adopted Governmental Accounting Standards Board (GASB) Statement 31, which requires that the Town's investments be carried at fair value instead of cost. Under GASB 31, the Town must adjust the carrying value of its investments to reflect their fair value at each fiscal year end, and it must include the effects of these adjustments in income for that fiscal year.

The following is a summary of the Town's Cash and Investments (stated at fair value) as of June 30, 2015:

Investment Type/Cash Deposit	Available for Operations	Restricted	Total	Investment Rating	Concentration of Credit Risk	Time to Mature (Years)	Weighted Average Maturity
U.S. Government Agency securities	\$ 47,622,746	\$ 70,383	\$ 47,693,129	Aaa/AAA	92%	1.55	1.43
Government Securities Money							
Market Mutual Funds	17,368	-	17,368	Not Rated	0%		
LAIF	4,171,610	-	4,171,610	Not Rated	8%	0.65	0.05
Total Investments	51,811,724	70,383	51,882,107		100%		
Cash Deposits with Banks	18,498,992	26,212	18,525,204				
Money Market Accounts	-	1,963,357	1,963,357				
Cash on hand at Town	4,100	-	4,100				
Total Cash and Investments	\$ 70,314,816	\$ 2,059,952	\$ 72,374,768				

⁽¹⁾ Limited to US Agency Obligations with liquid markets and readily determinable fair market values, including FHLB, FNMA, Freddie Mac, FFCB, the Federal Land Bank, and the TVA.

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Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted by Town debt or Agency agreements.

	Total Town	Fiduciary Funds	Totals
Cash and investments available for operations	\$ 67,822,471	\$ 2,492,345	\$ 70,314,816
Restricted cash and investments	96,595	1,963,357	2,059,952
Total cash and investments	<u>\$ 67,919,066</u>	<u>\$ 4,455,702</u>	<u>\$ 72,374,768</u>

NOTE 3 - LONG-TERM NOTES RECEIVABLE

The Town had the following long-term notes receivable as of June 30, 2015:

Description	Interest Rate	Maturity	Balance
General Fund:			
Open Doors Associates, Ltd.	7%	2024	\$ 880,388
BMP Loans	3%	Various	8,011
Total General Fund			<u>888,399</u>
Community Development Block Grant Fund (CDBG):			
Active Home Loans	Various	Various	116,038
Open Doors Associates, Ltd.	7%	2024	98,660
Housing Conservation Loans	0-5%	Various	157,393
Rehab Loan to Charities			159,000
Total CDBG			<u>531,091</u>
Total Long-Term Notes Receivable - Government-wide Statement of Net Assets			<u>1,419,490</u>
Successor Agency Affordable Housing:			
Project Match	Various	Various	<u>540,433</u>
Total Long-Term Notes Receivable			<u>\$ 1,959,923</u>

Open Doors Associates Ltd. And Mid-Peninsula Housing Coalition - The Town has cooperation agreements with these two developers and several other governmental agencies (the "Developers"). Under these agreements, the Developers constructed a 64-unit low and moderate-income housing project. To assist in financing this project, the Town advanced funds to these developers under notes, which are secured by deeds of trust subordinated by construction loans, permanent financing and other loans on the project up to a maximum of \$6.5 million.

Under a note dated April 21, 1992, the Town agreed to a loan with Open Doors Associates, Ltd. to cover the cost of traffic impact fees, planning fees and building permit taxes. As of June 30, 2015,

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\$883,416 of such costs, including accrued interest, had been incurred by Open Doors Associates, Ltd. in connection with the project and advances by the Town under this note.

Active Home Loans and Housing Conservation Loans - The Town uses CDBG Fund (funded through federal grants) to assist low and moderate income homeowners to improve their homes and to fund low income housing rental properties acquisition and rehabilitation. These loans are secured by deeds of trust.

Project Match - The Successor Agency has a loan agreement with Project Match, a nonprofit benefit corporation, to acquire and rehabilitate four or five bedroom single family homes. The property is to provide affordable housing rental to very low income senior households. The loan receivable is evidenced by a promissory note and secured by a deed of trust. From inception of the loan through June 30, 2015, no interest or principal payments have been made.

NOTE 4 - INTERFUND TRANSACTIONS

Inter-fund Receivables and Payables - Amounts due to or due from other funds reflect inter-fund balances for services rendered or short-term loans expected to be repaid in the next fiscal year. Advances to or from other funds are long-term loans between funds that are to be repaid in their entirety over several years. As of June 30, 2015, there were no inter-fund receivables and payables.

Transfers - With Council approval resources may be transferred from one fund to another. Transfers routinely reimburse funds that have made an expenditure on behalf of another fund. Transfers may also be made to pay for capital projects or capital outlays, lease or debt service payments, operating expenses and low and moderate-income housing projects. Transfers between funds during the fiscal year ended June 30, 2015 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 504,376	\$ 7,386,491
Appropriated Reserves Fund	8,372,844	113,933
Nonmajor Gov't Funds	100,000	287,625
Internal Service Funds	<u>531,066</u>	<u>1,720,237</u>
Total Transfers	<u><u>\$ 9,508,286</u></u>	<u><u>\$ 9,508,286</u></u>

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NOTE 5 - CAPITAL ASSETS

Changes in the Town's capital assets during the fiscal year are shown as follows:

	Balance at June 30, 2014	Adjustments and Additions	Retirements	Balance at June 30, 2015
Capital Assets not being depreciated:				
Land	\$ 20,333,684	\$ -	\$ -	\$ 20,333,684
Construction in Progress	997,145	1,238,312	-	2,235,457
Total capital assets not being depreciated	21,330,829	1,238,312	-	22,569,141
Capital Assets being depreciated:				
Buildings and Improvements	28,316,263	141,166	-	28,457,429
Equipment & Vehicle	9,161,837	998,274	348,168	9,811,943
Infrastructure - All Other	20,615,531	1,422,724	-	22,038,255
Infrastructure - Streets	53,984,080	-	-	53,984,080
Total capital assets being depreciated	112,077,711	2,562,164	348,168	114,291,707
Less accumulated depreciation for:				
Buildings and Improvements	5,018,488	579,438	-	5,597,926
Equipment & Vehicle	7,046,321	436,336	306,257	7,176,400
Infrastructure - All Other	2,840,159	2,306,879	-	5,147,038
Infrastructure - Streets	25,252,455	-	-	25,252,455
Total accumulated depreciation	40,157,423	3,322,653	306,257	43,173,819
Net capital assets being depreciated	71,920,288	(760,489)	41,911	71,117,888
Governmental activity capital assets, net	\$ 93,251,117	\$ 477,823	\$ 41,911	\$ 93,687,029

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amount allocated to each function or program is as follows:

Governmental Activities	Depreciation Expense
General Government	\$ 136,138
Public Safety	301,475
Parks & Public Works	2,402,339
Community Development	1,508
Library	391,339
Sanitation	89,854
Total Governmental Activities	<u>\$ 3,322,653</u>

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Changes in the RDA Successor Agency trust fund capital assets during the fiscal year are shown as follows:

	Balance at June 30, 2014	Adjustments and Additions	Retirements	Balance at June 30, 2015
Capital Assets not being depreciated:				
Land	\$ 5,257,422	\$ -	\$ -	\$ 5,257,422
Total capital assets not being depreciated	5,257,422	-	-	5,257,422
Capital Assets being depreciated:				
Buildings and Improvements	4,067,708	-	-	4,067,708
Total capital assets being depreciated	4,067,708	-	-	4,067,708
Less accumulated depreciation for:				
Buildings and Improvements	2,033,854	101,693	-	2,135,547
Total accumulated depreciation	2,033,854	101,693	-	2,135,547
Net capital assets being depreciated	2,033,854	(101,693)	-	1,932,161
Successor Agency capital assets, net	\$ 7,291,276	\$ (101,693)	\$ -	\$ 7,189,583

NOTE 6 - LONG-TERM OBLIGATIONS

The Town generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. As of February 1, 2012, the Town transferred long-term debt issued by the Redevelopment Agency to the Successor Agency trust as a part of the RDA dissolution. The following summarizes the changes in long-term debt in the Successor Agency trust fund during the fiscal year ended June 30, 2015:

Long-Term Debt	Interest Rate	Maturity Date	Original Issue	Beginning Balance	Deletions	Ending Balance	Due Within One Year	Due in More Than One Year
2002 COP	2.5-5%	2031	\$ 10,725,000	\$ 8,040,000	\$ 295,000	\$ 7,745,000	\$ 310,000	\$ 7,435,000
2010 COP	2.5-4.25%	2028	15,675,000	13,825,000	695,000	13,130,000	715,000	12,415,000
Subtotal COP's			26,400,000	21,865,000	990,000	20,875,000	1,025,000	19,850,000
Premiums			753,095	602,475	37,655	564,820	-	564,820
Total Long-Term Debt			\$ 27,153,095	\$ 22,467,475	\$ 1,027,655	\$ 21,439,820	\$ 1,025,000	\$ 20,414,820

2002 Certificates of Participation (2002 COPs) - On July 18, 2002, the Town and the Los Gatos Redevelopment Agency issued \$10,725,000 in 2002 COPs, Series A, to finance the acquisition, construction, rehabilitation, equipping and improvement of several capital improvement projects. The Town had pledged lease payments of real property and facilities comprised of the Parks and Public Works Service Center and Baseball Field, as well as Parking Lot No. 1, 2, and 3, as collateral for the repayment of the Certificates. Principal payments are due annually on August 1st, with interest payments due semi-annually on February 1st and August 1st.

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2010 Certificates of Participation (2010 COPs) - On June 1, 2010, \$15,675,000 of 2010 COPs were issued to finance the acquisition, construction, and improvement of a library on the Town's Civic Center campus, to be owned and operated by the Town. Principal payments are due annually on August 1, with interest payments due semi-annually on February 1 and August 1.

To assist the Town in paying the cost of acquisition and construction of various projects, the Town and its Redevelopment Agency entered into lease and reimbursement agreements in 1992, 2002, and 2010. Under the agreements, the Agency will use available net tax increment revenues resulting from the projects' effect on land values to repay the Town for all lease payments made by the Town to the Agency under the lease agreements for the projects. Net tax increment revenues are all taxes allocated to and paid into the Successor Agency private-purpose trust fund.

Future debt service requirements of the 1992, 2002, and 2010 Certificates of Participation (collectively the "COPs") as of June 30, 2015, were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2016	\$ 1,025,000	\$ 897,398	\$ 1,922,398
2017	1,065,000	858,303	1,923,303
2018	1,105,000	809,739	1,914,739
2019	1,150,000	759,073	1,909,073
2020	1,195,000	710,024	1,905,024
2021-2025	6,805,000	2,693,906	9,498,906
2026-2030	7,260,000	1,057,450	8,317,450
2031-2032	1,270,000	64,250	1,334,250
Total COP Debt Service	\$ 20,875,000	\$ 7,850,143	\$28,725,143

The Successor Agency must maintain a required amount of cash and investments with the trustee under the terms of the COPs issues. These funds are pledged as reserves to be used if the Successor Agency fails to meet its obligations under the COPs issue and totaled \$1,963,315 as of June 30, 2015. The California Government Code requires these funds to be invested in accordance with Town ordinance, bond indentures or State statutes. All these funds have been invested as permitted under the Code.

NOTE 7 - SPECIAL ASSESSMENT DISTRICT DEBT WITHOUT COMMITMENT

Special assessment districts are established in various parts of the Town to provide improvements to properties located in those districts. Properties are assessed for the cost of the improvements. These assessments are payable over the term of the debt issued to finance the improvements and are used to pay debt service on debt issued to fund the improvements.

The Town is acting only as an agent and has no legal liability with respect to the payment of any indebtedness of the Downtown Parking Assessment District. The principal amount of the non-obligated debt outstanding was \$0 as of June 30, 2015 and was excluded from the Town's financial statements.

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NOTE 8 - FUND BALANCES

Fund balance for governmental funds is reported in classifications (nonspendable, restricted, committed, assigned, and unassigned) that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

As of June 30, 2015, fund balances were classified as follows:

Restricted

Capital Outlay funded from storm drain fees, construction taxes and debt proceeds are legally restricted for major capital projects.

Repairs and Maintenance reflects legally restricted balances for repairs and maintenance of lighting and landscape property and open space property that are financed with special tax assessments on the benefiting property.

Assigned

Vasona Land Sale assigned fund balance will be used for acquisition and development of a new Town sports park.

Open Space assigned fund balance will be used to make selective open space acquisitions.

Postemployment Medical assigned fund balance will be used to aid in funding actuarially determined requirements for retiree medical costs.

Parking assigned fund balance will be used to mitigate parking issues within the Town.

Market Fluctuations assigned fund balance will be used to manage changes in fair values of investments.

Sustainability assigned fund balance will be used to fund ongoing sustainability initiatives and programs.

Productivity Enhancements assigned fund balance will be used to fund requests that result in streamlining or improving existing service levels.

Economic Uncertainty assigned fund balance will be used to fund future fluctuations in the economy that are not currently foreseen. This designation is calculated at 25% of the operating budget.

Capital Projects assigned fund balance will be used for the acquisition and construction of capital facilities.

Carryover assigned fund balance will be used for encumbered items re-appropriated in the following year.

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Comcast PEG assigned fund balance will be used to fund capital improvements linked to the televising of council and planning commission meetings.

Revenue Stabilization assigned fund balance will be used to mitigate the cyclical changes in locally generated revenues from temporary downturns in the local economy, or "one-time" revenue losses where recovery of the revenue base is deemed likely in the near future.

Special Revenue Fund assigned fund balance will be used for the activities of the respective revenue fund.

NOTE 9 - EMPLOYEES' RETIREMENT PLAN

Plan Descriptions

All qualified employees are eligible to participate in the Town's Miscellaneous agent multiple employer defined benefit pension plan or the Safety cost-sharing multiple employer defined benefit pension plans (the Plans) administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Town resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members. Benefits are based on age at retirement, highest salary for either a one or three year period and years of credited service. The cost of living adjustments for the Plans are applied as specified by the Public Employees' Retirement Law. The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous		Safety
	Tier 1	PEPRA	
Hire date	N/A	On or after January 1, 2013	N/A
Benefit formula	2% @ 55	2% @ 62	3% @ 50
Benefit vesting schedule	5 Years	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	50	52	50
Monthly benefits as a % of eligible compensation	1% to 2.5%	1% to 2.5%	3.00%
Required employee contribution rates	7.00%	6.25%	9.00%
Required employer contribution rates	21.90%	17.06%	40.85%

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Employees Covered

At June 30, 2015, the following employees were covered by the benefit terms for the Plans:

	Miscellaneous	Safety
Active	116	38
Transferred	82	15
Separated	73	3
Retired	185	59
Total	456	115

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rates are the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Town is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2015, the contributions recognized as part of pension expense for the Plans were as follows:

	Employer Contributions	Employee Contributions
Miscellaneous	\$ 1,796,079	\$ 668,167
Safety	\$ 1,565,402	\$ 551,732

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions Pension Liability

As of June 30, 2015, the Town reported net pension liabilities for each plan as follows:

	Net Pension Liability
Miscellaneous	\$ 21,411,202
Safety	17,788,690
Total Net Pension Liability	\$ 39,199,892

The Town's net pension liability for the Safety Plan is measured as the proportionate share of the net pension liability while the Miscellaneous plan's net pension liability is a direct calculation based on its actuarial study and is not proportionate. The net pension liability of all the Plans are measured as of June 30, 2014, and the total pension liability for the Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Town's proportion of the net pension

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

liability for the Safety Plan was based on a projection of the Town's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Town's proportionate share of the net pension liability for the Safety Plan as of June 30, 2013 and 2014 was as follows:

	<u>Safety</u>
Proportion - June 30, 2013	0.4440%
Proportion - June 30, 2014	0.4742%
Change	<u>0.0303%</u>

The following is a summary of the changes in the total pension liability, fiduciary net position and net pension liability of the Town's Miscellaneous Plan as of June 30, 2015:

	<u>Total Pension Liability</u>	<u>Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Beginning Balance	\$ 84,904,502	\$ 58,716,725	\$ 26,187,777
Service Costs	1,579,547	-	1,579,547
Interest on Total Pension Liability	6,268,015	-	6,268,015
Employer Contributions Subsequent to Measurement Date - Actual	-	1,796,079	(1,796,079)
Employee Contributions	-	668,167	(668,167)
Projected Earnings on Plan Investments	-	4,328,173	(4,328,173)
Recognized Difference between Projected and Actual Earnings	-	1,166,344	(1,166,344)
Net Difference Between Projected and Actual Earnings	-	4,665,374	(4,665,374)
Employee Contribution Refunds and Benefit Payments	(4,241,487)	(4,241,487)	-
Net Changes	<u>3,606,075</u>	<u>8,382,650</u>	<u>(4,776,575)</u>
Ending Balance	<u>\$ 88,510,577</u>	<u>\$ 67,099,375</u>	<u>\$ 21,411,202</u>

For the year ended June 30, 2015, the Town recognized pension expense of \$3,247,119.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous		Safety	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,968,043	\$ -	\$ 1,412,210	\$ -
Adjustment due to differences in proportions	-	-	-	38,185
Net differences between projected and actual earnings on plan investments	-	4,665,374	-	3,810,066
Totals	<u>\$ 1,968,043</u>	<u>\$ 4,665,374</u>	<u>\$ 1,412,210</u>	<u>\$ 3,848,251</u>

The Town reported \$3,380,253 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30	Miscellaneous	Safety
2016	\$ (1,166,344)	\$ (966,154)
2017	(1,166,344)	(966,154)
2018	(1,166,344)	(963,425)
2019	(1,166,342)	(952,518)
Totals	<u>\$ (4,665,374)</u>	<u>\$ (3,848,251)</u>

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

Actuarial Assumptions

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using CalPERS' membership data for all funds

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent for the Plans. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plans, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website. According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year.

CalPERS will continue to check the materiality of the difference in calculation until such time as they changes their methodology. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach.

Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic	Real Return	Real Return
	Allocation	Years 1 - 10 (a)	Years 11+ (b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	<u>100.00%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town's net pension liability for the Plans, calculated using the discount rate for the Plans, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.50%	6.50%
Net Pension Liability	\$ 32,506,410	\$ 27,577,769
Current Discount Rate	7.50%	7.50%
Net Pension Liability	\$ 21,411,202	\$ 17,788,690
1% Increase	8.50%	8.50%
Net Pension Liability	\$ 12,178,563	\$ 8,733,911

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

The Town recognizes the cost of postemployment healthcare in the year when employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the Town's future cash flows based on GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). Because the Town adopted the requirements of GASB 45 prospectively, recognition of the liability accumulated from prior years will be phased in over ten years, commencing with the 2009 liability.

Plan Description - The Town makes contributions to California Employer's Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit healthcare plan administered by the PERS. The purpose of the CERBT Fund is to provide California government employers with a trust through which they may prefund retiree medical costs and Other Post-Employment Benefits (OPEB). The Town uses CERBT as its investment vehicle and requests disbursements on an as needed basis to reimburse the Town for the cost of retiree health insurance benefits. Benefit provisions and all other requirements are established by state statute and Town ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy - The contribution requirements of plan members and the Town are established and may be amended by the Town. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined by the Town. For the year ended June 30, 2015, the Town contributed \$2,159,470 to the plan, including \$859,470 for

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

current premiums and an additional \$1,300,000 to prefund benefits. All related obligations are paid from the Town's General Fund.

Annual OPEB Cost and Net OPEB Obligation - As of June 30, 2015 and for the year then ended, the Town's Net OPEB Obligation (NOO) and Annual OPEB Cost were as follows:

NOO as of June 30, 2014	\$ 4,048,004
Annual OPEB Cost	
Annual Required Contribution	1,864,000
Interest on NOO	294,000
NOO adjustment	(834,144)
Net annual OPEB cost	1,323,856
Contributions made (includes benefit payments)	(2,159,470)
NOO as of June 30, 2015	<u>\$ 3,212,390</u>

Trend Information

Year	Actual Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
2013	\$ 2,490,000	\$ 1,887,047	76%	\$ 3,484,860
2014	2,617,000	2,053,856	78%	4,048,004
2015	1,323,856	2,159,470	163%	3,212,390

Plan Actuarial Value and Funding Progress

As of June 30, 2015, the plan was 38% funded. The actuarial accrued liability (AAL) for benefits was \$22,257,000 and the actuarial value of plan assets was approximately \$8,345,705, resulting in an unfunded actuarial accrued liability (UAAL) of \$13,911,295. The covered payroll (annual payroll of active employees covered by the plan) was \$14,440,000 and the ratio of UAAL to the covered payroll was 96%.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

In the June 30, 2013 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions used in the valuation are as follows:

1. Ultimate investment return of 7.25% (upward trend 0.25%-0.30% per year to 7.25% in FY 17/18)
2. Projected salary increases of 3.25%.
3. The annual healthcare cost trend ultimate rate is 5%. The select rates were 7.5%-7.8% depending on plans but were reduced to the ultimate rate in 2021.
4. Total inflation is assumed to increase 3% annually.
5. Amortization method: Level percentage of payroll.
6. Amortization period:
 - a. 30-year closed period for initial unfunded actuarial accrued liability (UAAL) (24 years remaining as of June, 30, 2015)
 - b. 20-year closed period for method, assumption, and plan changes
 - c. 15-year closed period for gains and losses; and
 - d. Maximum 30 year combined period
7. Actuarial method for valuing assets: Investment gains and losses spread over a 5-year rolling period, not less than 80% or more than 120% of market value.

Funded Status per Valuation Date (Required Supplementary Information)

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
1/1/2010	\$ 17,712,000	\$ 425,000	\$ 17,287,000	2.4%	\$ 13,477,000	128.3%
6/30/2011	22,121,000	1,947,000	20,174,000	8.8%	14,123,000	142.8%
6/30/2013	22,257,000	8,345,705	13,911,295	37.5%	14,440,000	96.3%

NOTE 11 - RISK MANAGEMENT

The Town participates in the following public entity risk pools through formally organized and separate legal entities. The Town does not have an equity interest in the joint ventures. These entities exercise full powers and authorities within the scope of the related agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the separate entities are not those of the Town, although the Town retains an ongoing financial interest or an ongoing financial responsibility.

Association of Bay Area Governments PLAN Corporation (ABAG) - The Town participates in ABAG, which covers general liability claims in the amount up to \$5,000,000 plus \$15,000,000 in excess liability for total coverage of \$20,000,000 per occurrence. The Town has a deductible or uninsured liability of up to \$50,000 per claim. ABAG also provides all risk property coverage of \$100,000,000, excluding flood and earthquake coverage. The Town has a \$5,000 deductible for property damage and a \$10,000 deductible for vehicle damage. Once the Town's deductible is met, ABAG becomes responsible for payment of all claims up to the limit.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

Condensed full accrual basis audited financial information of ABAG as of and for the year ended June 30, 2014, as provided by ABAG, P.O. Box 2050, Oakland, CA 94604, is as follows:

Total Assets	\$ 44,444,445
Total Liabilities	<u>36,354,585</u>
Net Position	<u>\$ 8,089,860</u>
Total Operating Revenue	\$ 8,935,914
Total Operating Expense	<u>20,413,794</u>
Net Operating Income	(11,477,880)
General Revenue	<u>(896,792)</u>
Change in Net Position	(12,374,672)
Beginning Net Position	<u>20,464,532</u>
Ending Net Position	<u>\$ 8,089,860</u>

Local Agency Workers' Compensation Joint Powers Authority (LAWCX) - The Town is a member of LAWCX for workers compensation claims coverage. The Town has a \$250,000 self-insured retention level or uninsured liability for all employees. Once the Town's deductible is met, LAWCX becomes responsible for claims up to \$1,000,000. For claims greater than \$1,000,000, LAWCX has a commercial policy providing coverage. Financial statements may be obtained from LAWCX at 6371 Auburn Blvd., Suite B, Citrus Heights, California, 94604-2050.

Condensed full accrual basis audited financial information of LAWCX as of and for the year ended June 30, 2014, is as follows:

Total Assets	\$ 71,812,040
Total Liabilities	<u>45,119,273</u>
Net Position	<u>\$ 26,692,767</u>
Total Operating Revenue	\$ 10,441,407
Total Operating Expense	<u>9,999,089</u>
Net Operating Income	442,318
General Revenue	<u>100,417</u>
Change in Net Position	542,735
Beginning Net Position	<u>26,150,032</u>
Ending Net Position	<u>\$ 26,692,767</u>

The Town has not significantly reduced its insurance coverage from the prior year and settlements have not exceeded insurance coverage for the past three years.

Liability for Uninsured Claims - The Town is required to record its liability for uninsured claims and to reflect the current portion of this liability as an expenditure in its financial statements. As discussed above, the Town has coverage for such claims, but it has retained the risk for the deductibles, or uninsured portion of these claims.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

The change in Workers' Compensation and Self Insurance Service Funds' claims liabilities, is based on historical trend information provided by its third party administrator and was computed as follows as of June 30, 2015:

	Workers' Compensation Internal Service Fund	Self Insurance Internal Service Fund	Total
Claims payable balance - June 30, 2012	\$ 807,383	\$ 309,658	\$ 1,117,041
Claims incurred	366,125	460,807	826,932
Claims paid	(378,021)	(416,657)	(794,678)
Claims payable balance - June 30, 2013	795,487	353,808	1,149,295
Claims incurred	965,800	(66,621)	899,179
Claims paid	(892,063)	(154,339)	(1,046,402)
Claims payable balance - June 30, 2014	<u>\$ 869,224</u>	<u>\$ 132,848</u>	<u>\$ 1,002,072</u>

NOTE 12 - REDEVELOPMENT AGENCY DISSOLUTION

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the Town that previously had reported a redevelopment agency as a blended component unit.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The Town participates in several federal and state grant programs. These are subject to examination by grantors and the amount, if any, of disallowed expenditures cannot be determined at this time. The Town expects such amounts, if any, to be immaterial.

The Town is subject to litigation arising from the normal course of business. The Town Attorney believes there is no pending litigation which is likely to have a material adverse effect on the financial position of the Town.

As of June 30, 2015, the Successor Agency trust fund reported a net deficit of \$10,477,175.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 - TOWN/SUCCESSOR AGENCY GRANTS, COOPERATIVE AGREEMENTS

Public Improvement Grants and Cooperative Agreements

In January of 2011, the Redevelopment Agency entered into a public improvement grant and cooperative agreement with the Town for the purpose of funding the acquisition of public land and designing and constructing various public improvements to be owned by the Town provided that the projects were in accordance with the Redevelopment Agency's five year implementation plan and redevelopment plan.

The improvement plan, as identified in the agreement, called for approximately \$24 million to be granted to the Town for the following projects:

- a. Expansion and improvement of current and new downtown parking
- b. Highway 9 improvements from Highway 17 to Monte Sereno
- c. Almond Grove Area street, sidewalk and other improvements
- d. Downtown Los Gatos gateways, signage, banners and art
- e. Storm drain, retaining wall, street and other improvements
- f. New Los Gatos library building

During the fiscal year ended June 30, 2012, the rights and obligations resulting from this cooperative agreement were transferred to the Successor Agency Trust Fund as a part of the Town's dissolution of its Redevelopment Agency.

Affordable Housing Cooperative Agreement

In March of 2011, the Redevelopment Agency entered into an affordable housing cooperative agreement with the Town for the purpose of funding affordable housing projects and programs to be developed and/or administered by the Town in accordance with the Redevelopment Agency's five year implementation plan and redevelopment plan. The improvement plan, as identified in the agreement, called for approximately \$16 million to be granted to the Town for the following projects:

- a. Development of affordable housing at 224 Main St.
- b. Development of affordable housing at Dittos Lane
- c. Acquisition of property and development of affordable housing on Knowles Ave
- d. Partnership with Senior Housing Solutions for the creation of senior housing in Los Gatos
- e. Partnerships for the conversion of existing residential developments dedicated to affordable housing
- f. Grants to the Santa Clara County Housing Trust for the development of affordable housing.

During the fiscal year ended June 30, 2012, the rights and obligations resulting from this cooperative agreement were transferred to the Successor Agency Trust Fund as a part of the Town's dissolution of its Redevelopment Agency.

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Required Supplementary Information

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TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
MAJOR GOVERNMENTAL FUND SCHEDULES
(OTHER THAN THE GENERAL FUND) AND
PENSION SCHEDULES REQUIRED BY GASB 68

Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP):

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

Schedule of Pension Plan Contributions

Schedule of Proportionate Share of Net Pension Liability – CalPERS Safety Cost Sharing Plan

TOWN OF LOS GATOS
APPROPRIATED RESERVES FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Other taxes	\$ -	\$ -	\$ -	\$ -
Licenses & permits	182,000	182,000	853,946	671,946
Intergovernmental	160,000	675,857	859,119	183,262
Charges for services	899,299	1,978,443	294,192	(1,684,251)
Interest	-	-	6,806	6,806
Other	-	18,000	521,402	503,402
Total Revenues	1,241,299	2,854,300	2,535,465	(318,835)
EXPENDITURES				
Parks and public works	-	-	187,960	(187,960)
Capital outlay	7,203,749	15,218,609	3,451,681	11,766,928
Total Expenditures	7,203,749	15,218,609	3,639,641	11,578,968
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,962,450)	(12,364,309)	(1,104,176)	11,260,133
OTHER FINANCING SOURCES (USES)				
Operating transfers in	7,081,491	8,372,844	8,372,844	-
Operating transfers (out)	(112,000)	(112,000)	(113,933)	(1,933)
Total Other Financing Sources (Uses)	6,969,491	8,260,844	8,258,911	(1,933)
CHANGE IN FUND BALANCE	<u>\$ 1,007,041</u>	<u>\$ (4,103,465)</u>	7,154,735	<u>\$ 11,258,200</u>
BEGINNING FUND BALANCE			8,191,823	
ENDING FUND BALANCE			<u>\$ 15,346,558</u>	

**TOWN OF LOS GATOS
SCHEDULE OF PENSION PLAN CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	2015
Safety Plan	
Contractually Required Contributions (Actuarially Determined)	\$ 1,999,757
Contributions in Relation to Actuarially Determined Contributions	1,999,757
Contribution Deficiency (Excess)	-
 Covered Employee Payroll	 \$ 4,916,535
Contributions as a Percentage of Covered Payroll	40.67%
 Miscellaneous Plan	
Contractually Required Contributions (Actuarially Determined)	\$ 1,796,079
Contributions in Relation to Actuarially Determined Contributions	1,796,079
Contribution Deficiency (Excess)	-
 Covered Employee Payroll	 \$ 8,406,315
Net Pension Liability as a Percentage of Covered Payroll	254.70%
Contributions as a Percentage of Covered Payroll	21.37%

Notes to Schedule:

Valuation Date:	June 30, 2013
Assumptions Used:	Entry Age Method used fro Actuarial Cost Method Level Percentage of Payroll (Closed) Used Amortization Method 3.8 Years Remaining Amortization Period Inflation Assumed at 2.75% Investment Rate of Returns set at 7.5% CalPERS mortality table using 20 years of membership data for all funds

** Fiscal year 2015 was the first year of implementation, therefore only one year is shown.

TOWN OF LOS GATOS
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
CALPERS SAFETY COST SHARING PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>2015</u>
Safety Plan	
District's Proportion of Net Pension Liability	0.28588%
District's Proportionate Share of Net Pension Liability	\$ 17,788,690
District's Covered Employee Payroll	\$ 4,916,535
 District's Proportionate Share of NPL as a % of Covered Employee Payroll	 361.81%
 Plan Fiduciary's Net Position as a % of the Total Pension Liability	 75.66%

** Fiscal year 2015 was the first year of implementation, therefore only one year is shown.

Supplementary Information

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TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NONMAJOR GOVERNMENTAL FUNDS

Capital Projects Funds:

Storm Drain Basin Funds were established to account for fees paid in conjunction with the development in specified drainage areas.

Construction Tax Funds were established to account for tax levies on building additions or alterations including capital improvements, underground utilities and parks.

Gas Tax Fund was established to account for revenue and expenditures under the State of California Streets and Highways Code Sections 2106, 2107 and 2107.5. The revenues must be used for the maintenance and construction of streets.

Special Revenue Funds:

Community Development Block Grant Fund was established to account for grant funds received and expended under the Community Development Act of 1974.

Non-Point Source Maintenance Fund was established to comply with obligations under the National Pollutant Discharge Elimination system permit issued by the California Regional Water Quality Control Board.

Lighting and Landscape Fund was established to account for maintenance of trees, landscaping, irrigation systems and lighting within the boundaries of Tract No. 8439.

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2015

	CAPITAL PROJECTS FUNDS			
	Storm Drains Funds	Construction Tax Fund	Gas Tax Fund	Total Capital Projects Funds
ASSETS				
Cash & Investments	\$ 1,592,794	\$ 2,814,352	\$ 1,075,828	\$ 5,482,974
Restricted cash & investments	-	-	-	-
Receivables:				
Accounts	-	-	-	-
Intergovernmental Receivable	-	-	-	-
Total Assets	<u>\$ 1,592,794</u>	<u>\$ 2,814,352</u>	<u>\$ 1,075,828</u>	<u>\$ 5,482,974</u>
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Accrued payroll and benefits	-	-	-	-
Unearned revenue	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE				
Restricted for:				
Capital Projects	1,592,794	2,814,352	1,075,828	5,482,974
Committed to:				
Repairs and Maintenance	-	-	-	-
Assigned for:				
Special Revenue Funds	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	<u>1,592,794</u>	<u>2,814,352</u>	<u>1,075,828</u>	<u>5,482,974</u>
Total Liabilities and Fund Balances	<u>\$ 1,592,794</u>	<u>\$ 2,814,352</u>	<u>\$ 1,075,828</u>	<u>\$ 5,482,974</u>

(Continued)

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2015

	SPECIAL REVENUE FUNDS				Total Nonmajor Governmental Funds
	Community Development Fund	Non-Point Source Maintenance	Lighting and Landscaping	Total Special Revenue Funds	
ASSETS					
Cash & Investments	\$ -	\$ 143,097	\$ 176,901	\$ 319,998	\$ 5,802,972
Restricted cash & investments	70,383	-	-	70,383	70,383
Receivables:					
Accounts	-	1,649	-	1,649	1,649
Intergovernmental Receivable	145,707	-	3,983	149,690	149,690
Total Assets	<u>\$ 216,090</u>	<u>\$ 144,746</u>	<u>\$ 180,884</u>	<u>\$ 541,720</u>	<u>\$ 6,024,694</u>
LIABILITIES					
Accounts Payable	\$ -	\$ -	\$ 676	\$ 676	\$ 676
Accrued payroll and benefits	-	1,803	-	1,803	1,803
Unearned revenue	152,158	-	-	152,158	152,158
Total Liabilities	<u>152,158</u>	<u>1,803</u>	<u>676</u>	<u>154,637</u>	<u>154,637</u>
FUND BALANCE					
Restricted for:					
Capital Projects	-	-	-	-	5,482,974
Committed to:					
Repairs and Maintenance	-	-	180,208	180,208	180,208
Assigned for:					
Special Revenue Funds	63,932	142,943	-	206,875	206,875
Unassigned	-	-	-	-	-
Total Fund Balances	<u>63,932</u>	<u>142,943</u>	<u>180,208</u>	<u>387,083</u>	<u>5,870,057</u>
Total Liabilities and Fund Balances	<u>\$ 216,090</u>	<u>\$ 144,746</u>	<u>\$ 180,884</u>	<u>\$ 541,720</u>	<u>\$ 6,024,694</u>

(Concluded)

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	CAPITAL PROJECTS FUNDS			
	Storm Drain Funds	Construction Tax Fund	Gas Tax Fund	Total Capital Projects Funds
REVENUES				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	135,959	-	135,959
License and permits	267,694	-	-	267,694
Intergovernmental	-	-	880,517	880,517
Charges for Services	-	-	-	-
Fines and Forfeitures	-	-	-	-
Interest	(5,793)	(9,397)	4,008	(11,182)
Other	-	-	-	-
Total Revenues	261,901	126,562	884,525	1,272,988
EXPENDITURES				
Current:				
Parks and Public Works	-	-	-	-
Sanitation and Other	2	-	-	2
Capital Outlay	-	-	-	-
Total Expenditures	2	-	-	2
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	261,899	126,562	884,525	1,272,986
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers (out)	-	-	(106,000)	(106,000)
Total Other Financing Sources (Uses)	-	-	(106,000)	(106,000)
Changes in Fund Balances	261,899	126,562	778,525	1,166,986
Fund Balances - Beginning of year	1,330,895	2,687,790	297,303	4,315,988
Fund Balances - End of year	\$ 1,592,794	\$ 2,814,352	\$ 1,075,828	\$ 5,482,974

(Continued)

**TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	SPECIAL REVENUE FUNDS				Total
	Community Development Fund	Non-Point Source Maintenance	Lighting and Landscaping	Total Special Revenue Funds	
REVENUES					
Property Taxes	\$ -	\$ -	\$ 37,723	\$ 37,723	\$ 37,723
Other Taxes	-	-	-	-	135,959
License and permits	-	-	-	-	267,694
Intergovernmental	176,705	-	-	176,705	1,057,222
Charges for Services	-	328,868	-	328,868	328,868
Fines and Forfeitures	-	-	17	17	17
Interest	3,473	-	(838)	2,635	(8,547)
Other	3,350	-	-	3,350	3,350
Total Revenues	183,528	328,868	36,902	549,298	1,822,286
EXPENDITURES					
Current:					
Parks and Public Works	-	-	21,032	21,032	21,032
Sanitation and Other	-	411,861	-	411,861	411,863
Capital Outlay	-	-	-	-	-
Total Expenditures	-	411,861	21,032	432,893	432,895
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	183,528	(82,993)	15,870	116,405	1,389,391
OTHER FINANCING SOURCES (USES)					
Transfers in	-	100,000	-	100,000	100,000
Transfers (out)	(176,705)	-	(4,920)	(181,625)	(287,625)
Total Other Financing Sources (Uses)	(176,705)	100,000	(4,920)	(81,625)	(187,625)
Changes in Fund Balances	6,823	17,007	10,950	34,780	1,201,766
Fund Balances - Beginning of year	57,109	125,936	169,258	352,303	4,668,291
Fund Balances - End of year	\$ 63,932	\$ 142,943	\$ 180,208	\$ 387,083	\$ 5,870,057

(Concluded)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	COMMUNITY DEVELOPMENT BLOCK GRANT			NON-POINT SOURCE MAINTENANCE		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
License and permits	-	-	-	-	-	-
Intergovernmental	176,705	176,705	-	-	-	-
Charges for services	-	-	-	336,684	328,868	(7,816)
Fines and forfeitures	-	-	-	-	-	-
Interest	-	3,473	3,473	-	-	-
Other	18,000	3,350	(14,650)	-	-	-
Total Revenues	194,705	183,528	(11,177)	336,684	328,868	(7,816)
EXPENDITURES						
Parks and public works	-	-	-	-	-	-
Sanitation and other	-	-	-	404,616	411,861	(7,245)
Capital outlay	-	-	-	-	-	-
Total Expenditures	-	-	-	404,616	411,861	(7,245)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	194,705	183,528	(11,177)	(67,932)	(82,993)	(15,061)
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	100,000	100,000	-
Operating transfers (out)	(70,000)	(176,705)	(106,705)	-	-	-
Total Other Financing Sources (Uses)	(70,000)	(176,705)	(106,705)	100,000	100,000	-
CHANGE IN FUND BALANCE	<u>\$ 124,705</u>	<u>6,823</u>	<u>\$ (117,882)</u>	<u>\$ 32,068</u>	<u>17,007</u>	<u>\$ (15,061)</u>
BEGINNING FUND BALANCE		<u>57,109</u>			<u>125,936</u>	
ENDING FUND BALANCE		<u><u>\$ 63,932</u></u>			<u><u>\$ 142,943</u></u>	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	LIGHTING AND LANDSCAPING			STORM DRAIN FUNDS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ 37,760	\$ 37,723	\$ (37)	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
License and permits	-	-	-	95,000	267,694	172,694
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	17	17	-	-	-
Interest	1,178	(838)	(2,016)	-	(5,793)	(5,793)
Other	-	-	-	-	-	-
Total Revenues	38,938	36,902	(2,036)	95,000	261,901	166,901
EXPENDITURES						
Parks and public works	17,891	21,032	(3,141)	-	-	-
Sanitation and other	-	-	-	-	2	(2)
Capital outlay	-	-	-	-	-	-
Total Expenditures	17,891	21,032	(3,141)	-	2	(2)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	21,047	15,870	(5,177)	95,000	261,899	166,899
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	(4,920)	(4,920)	-	-	-	-
Total Other Financing Sources (Uses)	(4,920)	(4,920)	-	-	-	-
CHANGE IN FUND BALANCE	<u>\$ 16,127</u>	<u>10,950</u>	<u>\$ (5,177)</u>	<u>\$ 95,000</u>	<u>261,899</u>	<u>\$ 166,899</u>
BEGINNING FUND BALANCE		<u>169,258</u>			<u>1,330,895</u>	
ENDING FUND BALANCE		<u><u>\$ 180,208</u></u>			<u><u>\$ 1,592,794</u></u>	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	CONSTRUCTION TAX			GAS TAX		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	30,000	135,959	105,959	-	-	-
License and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	880,214	880,517	303
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Interest	30,000	(9,397)	(39,397)	1,000	4,008	3,008
Other	-	-	-	-	-	-
Total Revenues	60,000	126,562	66,562	881,214	884,525	3,311
EXPENDITURES						
Parks and public works	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total Expenditures	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	60,000	126,562	66,562	881,214	884,525	3,311
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	-	-	-	(106,000)	(106,000)	-
Total Other Financing Sources (Uses)	-	-	-	(106,000)	(106,000)	-
CHANGE IN FUND BALANCE	<u>\$ 60,000</u>	126,562	<u>\$ 66,562</u>	<u>\$ 775,214</u>	778,525	<u>\$ 3,311</u>
BEGINNING FUND BALANCE		<u>2,687,790</u>			<u>297,303</u>	
ENDING FUND BALANCE		<u><u>\$ 2,814,352</u></u>			<u><u>\$ 1,075,828</u></u>	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	TOTALS		
	Budget	Actual	Variance Positive (Negative)
REVENUES			
Property taxes	\$ 37,760	\$ 37,723	\$ (37)
Other taxes	30,000	135,959	105,959
License and permits	95,000	267,694	172,694
Intergovernmental	1,056,919	1,057,222	303
Charges for services	336,684	328,868	(7,816)
Fines and forfeitures	-	17	17
Interest	32,178	(8,547)	(40,725)
Other	18,000	3,350	(14,650)
Total Revenues	1,606,541	1,822,286	215,745
EXPENDITURES			
Parks and public works	17,891	21,032	(3,141)
Sanitation and other	404,616	411,863	(7,247)
Capital outlay	-	-	-
Total Expenditures	422,507	432,895	(10,388)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,184,034	1,389,391	205,357
OTHER FINANCING SOURCES (USES)			
Operating transfers in	100,000	100,000	-
Operating transfers (out)	(180,920)	(287,625)	(106,705)
Total Other Financing Sources (Uses)	(80,920)	(187,625)	(106,705)
CHANGE IN FUND BALANCE	<u>\$ 1,103,114</u>	1,201,766	<u>\$ 98,652</u>
BEGINNING FUND BALANCE		4,668,291	
ENDING FUND BALANCE		<u>\$ 5,870,057</u>	

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TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

PROPRIETARY FUNDS
INTERNAL SERVICE FUNDS

Internal service funds are used to finance and account for special activities and service performed by a designed department for other departments in the Town on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they are used for internal activities only. In the Government-Wide Statement of Activities, the net revenues and expenses of the internal service funds are allocated to the Town departments or programs that generated them, thus eliminating internal service funds.

However, internal service funds are still presented separately in the fund financial statements and include the following funds:

Equipment Replacement Fund was established to account for the replacement of major Town equipment and all vehicle replacement.

Workers' Compensation Fund was established to account for future claims that may occur related to workers compensation injuries.

Self-Insurance Fund was established to account for future general liability claims against the Town.

Stores Fund was established to account for the purchase of photocopy equipment, postage and bulk meter expenses.

Management Information Fund was established to account for the replacement of management information computer systems and components.

Vehicle Maintenance Fund was established to account for preventative maintenance and repair provided for all Town vehicles and equipment.

Building Maintenance Fund was established to account for preventative maintenance and repair for all Town buildings.

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2015

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
ASSETS								
Cash & Investments	\$ 3,749,041	\$ 2,366,218	\$ 1,703,216	\$ 189,366	\$ 2,885,510	\$ 331,477	\$ 578,439	\$ 11,803,267
Restricted Cash & Investments	-	26,212	-	-	-	-	-	26,212
Receivables:								
Accounts	-	-	2,328	-	1,645	-	18,524	22,497
Materials, Supplies and Deposits	-	-	-	4,573	-	21,537	-	26,110
Equipment (Net)	-	-	-	-	-	-	3,427	3,427
Total Assets	\$ 3,749,041	\$ 2,392,430	\$ 1,705,544	\$ 193,939	\$ 2,887,155	\$ 353,014	\$ 600,390	\$ 11,881,513
Deferred Outflows of Resources								
Pension Plan Contributions	\$ -	\$ 16,307	\$ 23,247	\$ -	\$ 62,615	\$ 28,546	\$ 44,998	\$ 175,713
LIABILITIES								
Accounts Payable	73,813	5,761	1,922	5,983	44,241	25,334	107,931	264,985
Accrued Payroll and Benefits	199	2,588	3,613	-	9,755	4,788	8,429	29,372
Due to Other Governments	-	-	-	-	-	27	-	27
Claims Payable	-	869,224	132,848	-	-	-	-	1,002,072
Net Pension Liabilities	-	177,406	252,913	-	681,213	310,569	489,557	1,911,658
Total Liabilities	\$ 74,012	\$ 1,054,979	\$ 391,296	\$ 5,983	\$ 735,209	\$ 340,718	\$ 605,917	\$ 3,208,114
Deferred Inflows of Resources								
Differences Between Projected and Actual Pension Earnings	\$ -	\$ 38,656	\$ 55,108	\$ -	\$ 148,432	\$ 67,671	\$ 106,672	\$ 416,539
NET POSITION								
Net investment in capital assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,427	\$ 3,427
Restricted for:								
workers compensation claims	-	26,212	-	-	-	-	-	26,212
Unrestricted	3,675,029	1,288,890	1,282,387	187,956	2,066,129	(26,829)	(70,628)	8,402,934
Total Net Position	\$ 3,675,029	\$ 1,315,102	\$ 1,282,387	\$ 187,956	\$ 2,066,129	\$ (26,829)	\$ (67,201)	\$ 8,432,573

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
OPERATING REVENUES								
Charges for services	\$ 369,953	\$ 634,144	\$ 485,397	\$ 147,502	\$ 1,089,254	\$ 569,300	\$ 974,404	\$ 4,269,954
Interest	-	5	-	-	-	-	-	5
Use of money and property	-	-	-	-	-	-	220,490	220,490
Other local taxes	-	-	-	-	-	-	135,959	135,959
Other	134,999	370,425	-	481	-	703	6,780	513,388
Total Operating Revenues	504,952	1,004,574	485,397	147,983	1,089,254	570,003	1,337,633	5,139,796
OPERATING EXPENSES								
Salaries and benefits	6,932	105,149	143,536	-	400,171	184,473	326,672	1,166,933
Insurance expenses	-	146,721	131,121	-	-	-	-	277,842
Depreciation expenses	-	-	-	-	-	-	956	956
Services and supplies	4,177	812,198	196,793	109,320	492,113	299,419	914,717	2,828,737
Total Operating Expenses	11,109	1,064,068	471,450	109,320	892,284	483,892	1,242,345	4,274,468
Operating Income (loss)	493,843	(59,494)	13,947	38,663	196,970	86,111	95,288	865,328
Transfers (in)	31,066	-	500,000	-	-	-	-	531,066
Transfers (out)	(279,523)	-	-	-	(16,066)	(500,000)	(924,648)	(1,720,237)
Net Transfers	(248,457)	-	500,000	-	(16,066)	(500,000)	(924,648)	(1,189,171)
Change in Net Position	245,386	(59,494)	513,947	38,663	180,904	(413,889)	(829,360)	(323,843)
BEGINNING NET POSITION	3,429,643	1,576,698	1,056,559	149,293	2,661,264	740,861	1,319,864	10,934,182
PRIOR PERIOD ADJUSTMENT								
GASB 68	-	(202,102)	(288,119)	-	(776,039)	(353,801)	(557,705)	(2,177,766)
BEGINNING NET POSITION, AS ADJUSTED	3,429,643	1,374,596	768,440	149,293	1,885,225	387,060	762,159	8,756,416
ENDING NET POSITION	\$ 3,675,029	\$ 1,315,102	\$ 1,282,387	\$ 187,956	\$ 2,066,129	\$ (26,829)	\$ (67,201)	\$ 8,432,573

**TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from customers	\$ 504,952	\$ 1,004,575	\$ 483,069	\$ 147,983	\$ 1,088,650	\$ 570,003	\$ 1,319,544	\$ 5,118,776
Payments to suppliers	23,495	-	-	(105,841)	(562,948)	(282,547)	(877,095)	(1,804,936)
Payments to employees	(6,922)	(107,717)	(146,378)	-	(408,871)	(185,152)	(330,675)	(1,185,715)
Claims paid	-	(1,002,880)	(592,332)	-	-	-	-	(1,595,212)
Net Cash Provided (Used) by Operating Activities	521,525	(106,022)	(255,641)	42,142	116,831	102,304	111,774	532,913
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Transfers In	31,066	-	500,000	-	-	-	-	531,066
Transfers Out	(279,523)	-	-	-	(16,066)	(500,000)	(924,648)	(1,720,237)
Net Cash Provided (Used) by Noncapital Financing Activities	(248,457)	-	500,000	-	(16,066)	(500,000)	(924,648)	(1,189,171)
Net Increase(Decrease) in Cash and Investments	273,068	(106,022)	244,359	42,142	100,765	(397,696)	(812,874)	(656,258)
Cash and investments - beginning of year	3,475,973	2,498,452	1,458,857	147,224	2,784,745	729,173	1,391,313	12,485,737
Cash and investments - end of year	<u>\$ 3,749,041</u>	<u>\$ 2,392,430</u>	<u>\$ 1,703,216</u>	<u>\$ 189,366</u>	<u>\$ 2,885,510</u>	<u>\$ 331,477</u>	<u>\$ 578,439</u>	<u>\$ 11,829,479</u>
Reconciliation of Operating Income to Cash Flows from Operating Activities:								
Operating Income	\$ 493,843	\$ (59,494)	\$ 13,947	\$ 38,663	\$ 196,970	\$ 86,111	\$ 95,288	\$ 865,328
Adjustments to reconcile operating income to cash flows from operating activities:								
Depreciation	-	-	-	-	-	-	956	956
Pension expense adjustments (GASB 68)	-	(2,348)	(3,345)	-	(9,009)	(4,107)	(6,474)	(25,283)
Change in assets and liabilities:								
Receivables, net	-	-	(2,328)	-	(604)	-	(18,090)	(21,022)
Other assets	-	-	-	-	-	1,633	-	1,633
Accounts payable	27,672	(2,517)	(49,011)	3,479	(69,867)	18,640	40,094	(31,510)
Accrued payroll and benefits	10	(41,663)	(214,904)	-	(659)	27	-	(257,189)
Cash Flows From Operating Activities	<u>\$ 521,525</u>	<u>\$ (106,022)</u>	<u>\$ (255,641)</u>	<u>\$ 42,142</u>	<u>\$ 116,831</u>	<u>\$ 102,304</u>	<u>\$ 111,774</u>	<u>\$ 532,913</u>

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

PRIVATE PURPOSE TRUST FUNDS

Library Private Purpose Trust Fund was established to provide for the servicing of donations and bequests to the Town's Library Program.

RDA Successor Agency Private Purpose Trust Fund was established to account for the assets and liabilities transferred from the dissolution of the Town's former Redevelopment Agency and the continuing operations related to existing Redevelopment Agency obligations.

TOWN OF LOS GATOS
PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015

	Library	RDA Successor Agency	Total
ASSETS			
Cash and investments (Note 2)	\$ 662,445	\$ 1,650,696	\$ 2,313,141
Restricted cash and investments (Note 2)	-	1,963,357	1,963,357
Loans receivable (Note 3)	-	540,433	540,433
Capital assets (Note 5):			
Nondepreciable	-	5,257,422	5,257,422
Depreciable, net of accumulated depreciation	-	1,932,161	1,932,161
	<u>\$ 662,445</u>	<u>\$ 11,344,069</u>	<u>\$ 12,006,514</u>
LIABILITIES			
Accounts payable	\$ 20,075	\$ 327	\$ 20,402
Due to other governments	123	-	123
Interest payable	-	381,097	381,097
Long-term debt (Note 6):			
Due within one year	-	1,025,000	1,025,000
Due in more than one year	-	20,414,820	20,414,820
	<u>\$ 20,198</u>	<u>\$ 21,821,244</u>	<u>\$ 21,841,442</u>
NET POSITION			
Held in trust	<u>\$ 642,247</u>	<u>\$ (10,477,175)</u>	<u>\$ (9,834,928)</u>
	<u>\$ 642,247</u>	<u>\$ (10,477,175)</u>	<u>\$ (9,834,928)</u>

TOWN OF LOS GATOS
PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Library	RDA Successor Agency	Total
ADDITIONS			
Investment earnings	\$ (2,234)	\$ 15,249	\$ 13,015
Gifts, bequests and endowments	37,303	-	37,303
Other	-	2,067,483	2,067,483
	<u>35,069</u>	<u>2,082,732</u>	<u>2,117,801</u>
DEDUCTIONS			
Program expenses	-	106,570	106,570
Payments to other governments	-	38,213	38,213
Interest and fiscal agency expenses of RDA	-	880,881	880,881
Library services	87,741	-	87,741
Depreciation expense	-	101,693	101,693
	<u>87,741</u>	<u>1,127,357</u>	<u>1,215,098</u>
CHANGE IN NET POSITION	(52,672)	955,375	902,703
NET POSITION - BEGINNING OF YEAR	<u>694,919</u>	<u>(11,432,550)</u>	<u>(10,737,631)</u>
NET POSITION - END OF YEAR	<u><u>\$ 642,247</u></u>	<u><u>\$ (10,477,175)</u></u>	<u><u>\$ (9,834,928)</u></u>

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TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

AGENCY FUND
PARKNG IMPROVEMENT DISTRICT #88

Agency funds are used to account for assets held by the Town as an agent for individuals, private organizations and other governments. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

TOWN OF LOS GATOS
AGENCY FUND
PARKING IMPROVEMENT DISTRICT #88
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Balance			Balance
	June 30, 2014	Additions	Deletions	June 30, 2015
ASSETS				
Cash and investments	\$ -	\$ 179,204	\$ -	\$ 179,204
Restricted cash and investments	178,839	365	179,204	-
Total Assets	\$ 178,839	\$ 179,569	\$ 179,204	\$ 179,204
LIABILITIES				
Due to other governments	\$ 178,839	\$ 179,569	\$ 179,204	\$ 179,204
Total Liabilities	\$ 178,839	\$ 179,569	\$ 179,204	\$ 179,204

Statistical Section

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STATISTICAL (UNAUDITED)

This part of the Town of Los Gatos Comprehensive Annual Financial Report (“CAFR”) presents the detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town’s overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how Town’s financial performance and well-being have changed over time. (Schedule 1, Schedule 2, Schedule 3, and Schedule 4).

Revenue Capacity

These schedules contain information to help the reader assess one of the Town’s most significant local revenue source, the property tax (Schedule 5, Schedule 6, Schedule 7, and Schedule 8).

Debt Capacity

These schedules present information to help the reader assess the affordability of the Town’s current levels of outstanding debt and its ability to issue additional debt in the future (Schedule 9, Schedule 10, and Schedule 11)

Demographic and Economic Information

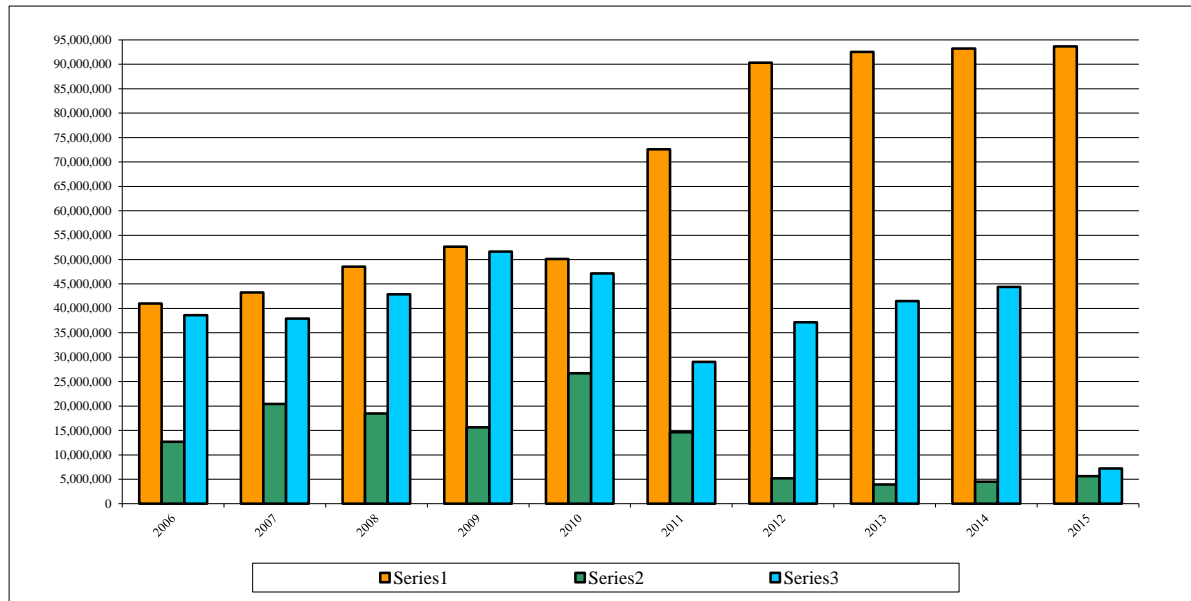
These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town’s financial activities take place (Schedule 12, Schedule 13, and schedule 14).

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the Town’s CAFR relates to the services the Town provides and activities it performs (Schedule 15 and Schedule 16).

Town of Los Gatos
Net Position by Component
Last Ten Fiscal Years
(Accrual Basis of Accounting)

Schedule 1



Fiscal Year	Investment in Capital Assets Net of Related Debt	Restricted	Unrestricted	Total Net Position
2006	41,019,121	12,665,493	38,609,085	92,293,699
2007	43,281,315	20,423,828	37,893,056	101,598,199
2008	48,581,378	18,459,776	42,884,826	109,925,980
2009	52,665,506	15,663,436	51,619,635	119,948,577
2010	50,129,550	26,723,994	47,191,225	124,044,769
2011	72,567,355	14,652,823	29,017,520	116,237,698
2012	90,333,451	5,167,236	37,192,210	132,692,897
2013	92,558,523	3,949,583	41,480,377	137,988,483
2014	93,251,117	4,485,246	44,393,265	142,129,628
2015	93,687,029	5,663,182	7,180,919	106,531,130

(2) The decrease in Restricted Net Position from FY2010 to FY2011 was primarily due to the issuance of the \$15.7 million Certificates of Participation in FY2010.

Town of Los Gatos
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

Schedule 2

Expenses	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Governmental Activities:										
General government	\$ 4,383,584	\$ 4,570,391	\$ 5,233,730	\$ 5,323,467	\$ 4,647,801	\$ 5,180,153	\$ 6,145,143	\$ 6,564,768	\$ 6,955,804	\$ 6,465,852
Police department	11,133,362	11,556,350	12,313,637	13,467,503	13,266,849	13,495,885	14,124,798	13,731,754	14,119,786	12,644,221
Parks and public works	6,523,888	7,222,052	6,958,449	8,671,678	7,458,085	7,155,905	7,827,332	7,829,315	8,154,616	8,069,352
Community development	2,887,818	2,735,223	3,064,865	3,389,151	3,522,477	3,099,269	3,434,551	4,094,188	4,424,040	4,047,738
Community services	948,650	2,388,250	1,060,922	1,162,284	1,270,240	666,015	-	-	-	-
Library services	1,880,465	1,892,448	1,956,767	2,067,476	2,038,009	1,892,805	1,938,577	2,128,823	2,234,431	2,553,414
Sanitation	574,344	414,610	502,196	407,048	655,713	342,893	158,205	393,205	363,180	491,359
Redevelopment	2,093,546	2,434,935	3,360,585	2,939,550	6,992,935	16,794,022	919,821	1,277,063	21,687	-
Interest and fees	708,585	704,794	670,415	631,159	612,700	1,278,381	1,123,842	-	-	-
Total Governmental Activities	\$ 31,134,241	\$ 33,919,053	\$ 35,121,366	\$ 38,059,316	\$ 40,464,809	\$ 49,905,328	\$ 35,672,269	\$ 36,019,116	\$ 36,273,544	\$ 34,271,936
Program Revenues										
Charges for Services:										
General government	\$ 1,981,557	\$ 2,127,670	\$ 1,149,911	\$ 1,155,409	\$ 1,337,772	\$ 1,156,931	\$ 1,131,424	\$ 1,416,593	\$ 2,179,077	\$ 1,888,213
Police department	1,343,028	1,250,636	895,569	1,358,361	2,110,357	2,153,843	2,324,397	2,450,630	3,206,579	3,529,166
Parks and public works	591,079	676,095	576,107	637,933	779,300	810,022	1,215,382	3,044,401	1,550,867	2,206,765
Community development	3,070,115	2,997,419	2,954,123	2,700,614	3,404,087	3,097,192	3,448,433	4,649,444	5,156,061	5,027,497
Community services	-	-	-	147,895	134,366	98,803	-	-	-	-
Library services	62,444	61,091	60,123	56,932	57,633	39,491	37,662	50,696	51,775	53,123
Sanitation	690,314	437,794	166,660	135,000	135,000	135,000	135,000	403,294	328,648	328,868
Operating Grants and Contributions:										
General government	-	-	54,242	8,834	10,237	15,638	6,453	8,406	-	-
Police department	745,797	645,034	744,347	538,629	81,997	27,748	29,980	91,360	42,661	24,838
Parks and public works	549,873	545,432	565,857	633,923	594,775	809,272	993,827	835,724	994,096	907,745
Community services	180,897	68,912	146,236	190,447	124,287	182,683	-	-	-	-
Library services	11,379	16,735	11,409	10,462	13,996	10,662	109	40	14,662	4,062
Sanitation	7,857	-	41,044	39,891	25,103	9,002	-	-	-	-
Capital Grants and Contributions:										
General government	-	-	-	-	-	-	-	169,270	-	176,705
Parks and public works	931,616	1,381,631	2,020,121	1,330,638	3,074,453	2,375,759	641,811	2,757,660	2,274,879	2,338,154
Community development	-	-	-	-	-	-	-	-	19,360	-
Total Program Revenues	\$ 10,165,957	\$ 10,208,449	\$ 9,385,749	\$ 8,944,968	\$ 11,883,363	\$ 10,922,046	\$ 9,964,478	\$ 15,877,518	\$ 15,818,665	\$ 16,485,136
General Revenues										
Property taxes	\$ 13,810,457	\$ 16,082,348	\$ 17,311,052	\$ 18,343,063	\$ 18,856,081	\$ 18,226,001	\$ 14,088,866	\$ 11,968,377	\$ 11,712,312	\$ 12,931,603
Sales taxes	8,655,566	9,253,891	9,345,432	8,487,000	8,317,217	9,971,409	9,889,100	8,757,428	8,029,571	8,202,678
Franchise taxes	-	-	-	-	-	-	-	-	-	2,215,430
Other taxes	2,247,997	2,327,516	2,904,908	2,664,698	2,623,622	2,906,264	3,698,753	3,324,791	3,718,405	2,062,893
Motor vehicle in lieu	666,494	194,104	137,330	101,265	92,595	139,814	15,238	15,790	13,068	-
Investment earnings	1,922,819	3,607,966	4,190,951	2,949,119	1,155,929	760,905	331,420	(133,375)	772,200	428,772
Loss on disposal of capital assets	(3,592)	-	-	-	-	-	-	-	-	-
Sale of property	-	-	-	6,525,000	-	(870,127)	-	54,425	-	-
Miscellaneous	2,850,836	334,818	9,842	66,802	52,459	41,943	2,275,160	1,154,647	350,468	813,324
Extraordinary gain (loss) dissolution of RDA	-	-	-	-	-	-	11,864,453	295,101	-	-
Total General Revenues	\$ 30,150,578	\$ 31,800,643	\$ 33,899,515	\$ 39,136,947	\$ 31,097,903	\$ 31,176,209	\$ 42,162,990	\$ 25,437,184	\$ 24,596,024	\$ 26,654,700
Change in Net Position	\$ 9,182,294	\$ 8,090,039	\$ 8,163,698	\$ 10,022,599	\$ 2,516,457	\$ (7,807,073)	\$ 16,455,199	\$ 5,295,586	\$ 4,141,145	\$ 8,867,900

* These line items have only been available since implementation of GASB34 in 2002/03.

- a. Investment Earnings revenue was down due to the economy downturn.
- b. Investment Earnings revenue was down due to declining interest rates and reduced cash balances.

Town of Los Gatos
Fund Balance, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

Schedule 3

	Fiscal Year									
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
General Fund										
Reserved	\$ 2,128,873	\$ 4,732,394	\$ 2,048,261	\$ 8,165,607	\$ 4,491,589	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	18,000,209	16,406,211	17,236,569	16,861,752	18,594,984	-	-	-	-	-
Nonspendable	-	-	-	-	-	1,500,000	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	21,806,781	21,992,886	20,758,156	23,791,749	22,103,364
Unassigned	-	-	-	-	-	2,433,556	4,019,409	7,502,446	1,363,376	2,017,892
Total general fund	<u>\$ 20,129,082</u>	<u>\$ 21,138,605</u>	<u>\$ 19,284,830</u>	<u>\$ 25,027,359</u>	<u>\$ 23,086,573</u>	<u>\$ 25,740,337</u>	<u>\$ 26,012,295</u>	<u>\$ 28,260,602</u>	<u>\$ 25,155,125</u>	<u>\$ 24,121,256</u>
All Other Governmental Funds										
Reserved	\$ 12,088,367	\$ 15,820,345	\$ 14,917,629	\$ 15,265,127	\$ 10,525,384	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	1,123,335	836,191	1,030,161	522,105	225,509	-	-	-	-	-
Capital project funds	3,842,580	8,169,857	11,719,905	11,203,521	24,454,347	-	-	-	-	-
Debt service funds	4,960,030	3,849,382	5,747,185	7,526,557	6,953,732	-	-	-	-	-
Nonspendable	-	-	-	-	-	1,500,000	-	-	-	-
Restricted	-	-	-	-	-	14,764,334	5,167,236	3,949,583	4,485,246	5,663,182
Assigned	-	-	-	-	-	26,593,328	27,382,560	26,855,338	8,191,823	15,553,433
Unassigned	-	-	-	-	-	2,409,667	4,126,516	7,659,654	183,045	-
Total all other governmental funds	<u>\$ 22,014,312</u>	<u>\$ 28,675,775</u>	<u>\$ 33,414,880</u>	<u>\$ 34,517,310</u>	<u>\$ 42,158,972</u>	<u>\$ 45,267,329</u>	<u>\$ 36,676,312</u>	<u>\$ 38,464,575</u>	<u>\$ 12,860,114</u>	<u>\$ 21,216,615</u>

Town of Los Gatos
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

Schedule 4

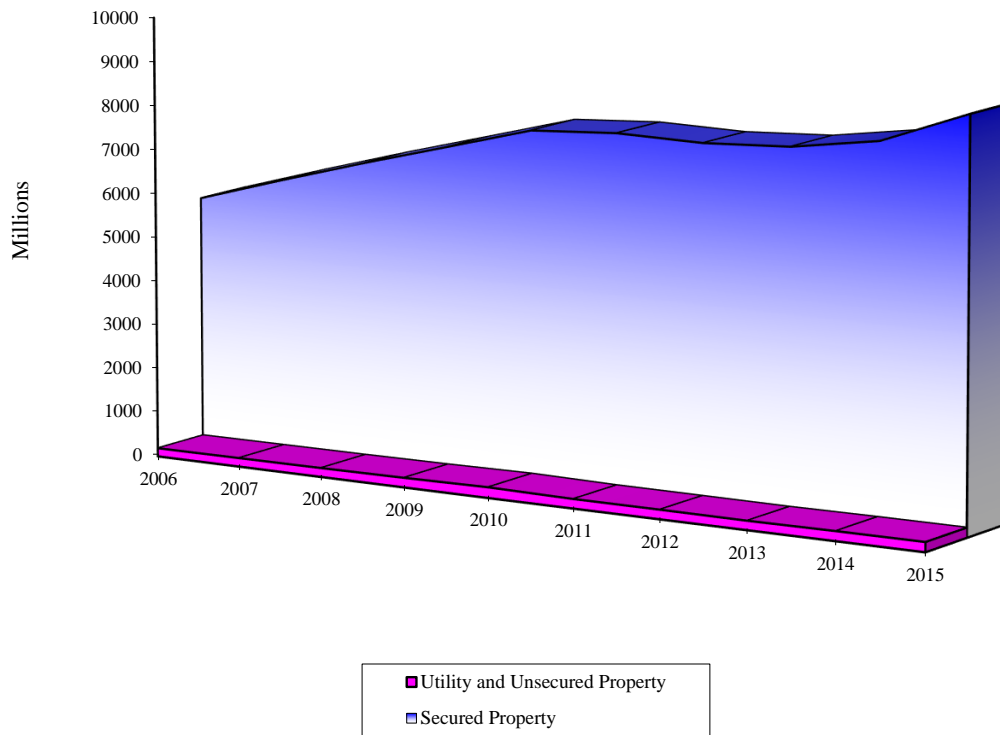
	Fiscal Year									
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Revenues:										
Taxes	\$ 25,112,221	\$ 27,888,072	\$ 29,773,634	\$ 29,643,262	\$ 29,967,385	\$ 31,549,352	\$ 27,676,719	\$ 24,596,799	\$ 23,475,393	\$ 23,208,820
Intergovernmental	3,993,032	4,085,983	3,128,239	2,134,352	4,082,725	3,248,303	1,669,729	2,615,191	2,440,127	2,921,002
Charges for Service	3,529,178	4,269,571	2,996,660	3,421,131	4,418,074	4,107,386	5,550,671	6,529,234	5,837,581	5,794,386
Licenses & Permits	2,637,977	2,705,028	3,337,822	2,692,187	2,977,199	2,967,819	3,242,348	4,015,871	5,343,265	6,467,771
Investment income	4,975,513	4,179,736	4,190,955	2,949,120	1,174,203	691,022	291,484	(133,380)	772,164	428,735
Fines and Forfeitures	1,005,773	561,665	369,292	618,771	662,699	737,903	809,790	688,125	795,720	868,564
Franchise Fees	-	-	-	-	-	-	-	-	-	2,215,430
Use of Property				60,749	51,948	38,502	38,974	38,910	37,741	32,209
Other	232,694	110,486	1,180,063	1,581,078	2,105,333	2,904,862	5,412,328	4,577,584	3,648,277	3,130,975
Total revenues	41,486,388	43,800,541	44,976,665	43,100,650	45,439,566	46,245,149	44,692,043	42,928,334	42,350,268	45,067,892
Expenditures:										
Current										
Public safety	11,706,091	11,576,850	12,214,891	12,971,105	12,821,499	13,004,041	13,392,953	13,370,032	13,742,189	13,747,198
Public Works	4,742,401	4,956,451	5,261,706	5,785,584	5,152,745	5,222,504	5,440,960	5,616,197	5,611,283	5,840,097
Community Development	2,936,730	2,776,231	3,035,240	3,280,856	3,452,914	2,973,587	3,226,195	4,235,832	4,335,599	4,218,500
Community Services	950,333	2,395,429	1,056,835	1,149,290	1,261,981	663,645	-	-	-	-
Library Services	1,876,022	1,904,900	1,946,595	2,007,518	1,999,430	1,806,611	1,805,479	2,055,069	2,131,438	2,268,844
Sanitation & Other	551,164	387,674	470,660	375,483	642,512	314,899	116,607	359,725	322,817	411,863
General Government	4,358,853	4,586,513	5,120,970	5,145,355	5,483,753	6,318,706	8,046,794	8,331,444	8,499,854	8,647,451
Redevelopment	2,573,514	2,966,132	3,284,847	3,861,525	8,692,216	18,958,126	3,282,155	1,277,063	21,687	-
Capital outlay	4,682,848	4,689,187	8,697,478	7,759,577	16,141,561	15,839,303	10,929,491	6,568,653	4,097,662	3,800,478
Debt service										
Principal repayment	400,000	414,167	429,167	445,000	465,000	485,000	934,167	-	-	-
Interest and fiscal charges	714,079	711,346	676,913	638,221	620,356	1,019,881	1,143,185	-	-	-
Total expenditures	35,492,035	37,364,880	42,195,302	43,419,514	56,733,967	66,606,303	48,317,986	41,814,015	38,762,529	38,934,431
Excess (deficiency) of revenues over (under) expenditures	5,994,353	6,435,661	2,781,363	(318,864)	(11,294,401)	(20,361,154)	(3,625,943)	1,114,319	3,587,739	6,133,461
Other financing sources(uses):										
Debt Issuance	-	-	-	-	16,428,095	-	-	-	-	-
Transfers in	2,854,245	10,611,169	8,810,379	5,370,708	4,028,905	3,928,107	3,735,440	2,841,881	3,418,872	8,977,220
Transfers out	(2,640,785)	(9,375,847)	(8,706,409)	(4,731,885)	(3,461,724)	(3,545,168)	(3,661,894)	(2,463,850)	(2,921,409)	(7,788,049)
Proceeds from issuance of debt	-	-	-	-	-	-	-	-	-	-
Total other financing sources(uses)	213,460	1,235,322	103,970	638,823	16,995,276	382,939	73,546	378,031	497,463	1,189,171
Special item:										
Sale of property	-	-	-	6,525,000	-	-	-	-	-	-
Extraordinary Gain (Loss) RDA Dissolution	-	-	-	-	-	-	(5,038,620)	295,913	-	-
Prepayment of pension obligations	-	-	-	-	-	-	-	-	(4,534,538)	-
Net change in fund balances	\$ 6,207,813	\$ 7,670,983	\$ 2,885,333	\$ 319,959	\$ 5,700,875	\$ (19,978,215)	\$ (3,552,397)	\$ 1,492,350	\$ 4,085,202	\$ 7,322,632
Debt service as a percentage of non capital expenditures	3.62%	3.44%	3.30%	3.04%	2.67%	2.96%	5.56%	0.00%	0.00%	0.00%

1 Increase due to SERAF payment to State in the amount of \$2.2M and increased Pass Through Payments.

2 The increase in capital outlay is due to purchases of land for low-moderate housing projects in the amount of \$4.3M and purchase of land for a sports park in the amount of \$3.1M.

Town of Los Gatos
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Schedule 5

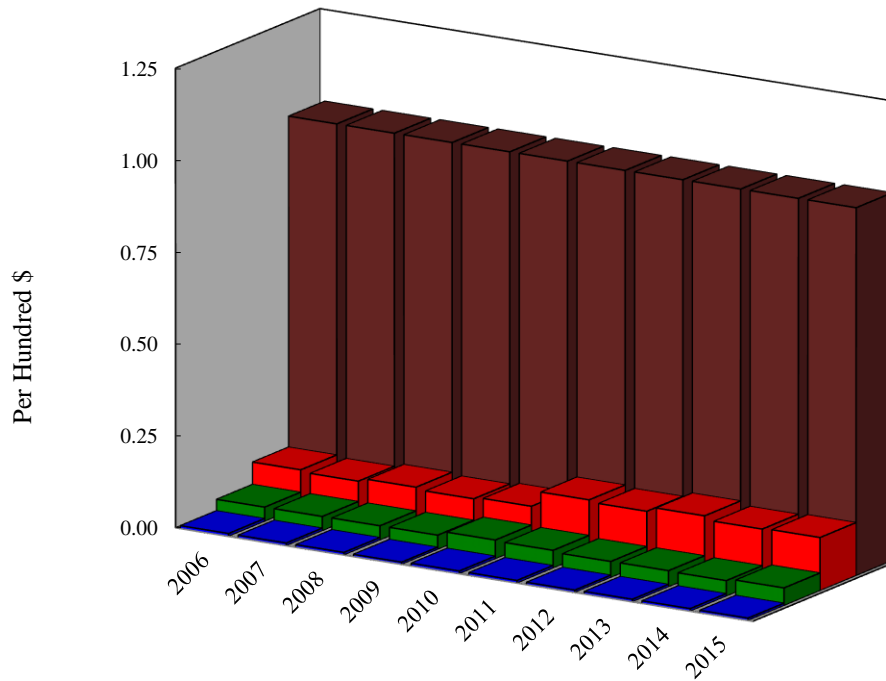


Fiscal Year	Utility and Unsecured Property	Percent Change	Secured Property	Percent Change	Total Assessed	Estimated Full Market	Total Direct Tax Rate
2004	175,689,995	-12.83%	5,258,601,739	7.02%	5,434,291,734	21,034,406,956	1.0475
2005	179,611,684	2.23%	5,654,906,203	7.54%	5,834,517,887	22,619,624,812	1.0480
2006	186,694,066	3.94%	6,259,830,939	10.70%	6,446,525,005	25,039,323,756	1.0466
2007	194,195,209	4.02%	6,840,335,733	9.27%	7,034,530,942	27,361,342,932	1.0460
2008	201,629,315	3.83%	7,392,958,751	8.08%	7,594,588,066	29,571,835,004	1.0459
2009	216,402,089	7.33%	7,949,991,620	7.53%	8,166,393,709	31,799,966,480	1.0449
2010	241,286,055	11.50%	8,076,101,607	1.59%	8,317,387,662	32,304,406,428	1.0584
2011	217,353,236	-9.92%	8,044,692,600	-0.39%	8,262,045,836	32,178,770,400	1.0555
2012	217,297,593	-0.03%	8,152,459,157	1.34%	8,369,756,750	32,609,836,628	1.0499
2013	211,268,609	-2.77%	8,465,420,032	3.84%	8,676,688,641	33,861,680,128	1.0508
2014	224,079,502	6.06%	9,238,816,900	9.14%	9,462,896,402	36,955,267,600	1.0493
2015	227,331,042	1.45%	9,767,782,505	5.73%	9,995,113,547	39,071,130,020	1.0544

Source: Santa Clara County Assessed Value Report

Town of Los Gatos
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years

Schedule 6



Santa Clara Valley Water District County
Retirement Levy / Hospital Bond
School District Bonds and Loans
Basic County Wide Levy

Fiscal Year	Basic County Wide Levy	County Retirement Levy and County Hospital Bond	Santa Clara Valley Water District	School District Bonds and Loans	Total
2006	1.0000	0.0388	0.0078	0.0996	1.1462
2007	1.0000	0.0388	0.0072	0.0941	1.1401
2008	1.0000	0.0388	0.0071	0.1032	1.1491
2009	1.0000	0.0388	0.0061	0.0970	1.1419
2010	1.0000	0.0510	0.0074	0.1021	1.1605
2011	1.0000	0.0483	0.0072	0.1449	1.2004
2012	1.0000	0.0435	0.0064	0.1393	1.1892
2013	1.0000	0.0439	0.0069	0.1523	1.2031
2014	1.0000	0.0423	0.0070	0.1417	1.1910
2015	1.0000	0.0479	0.0065	0.1442	1.1986

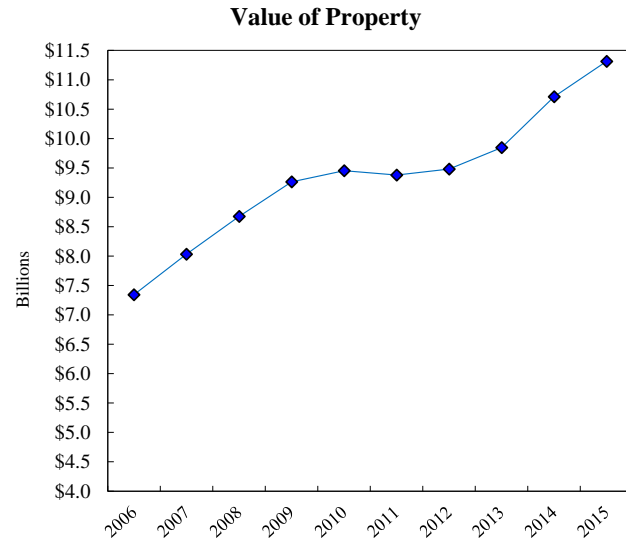
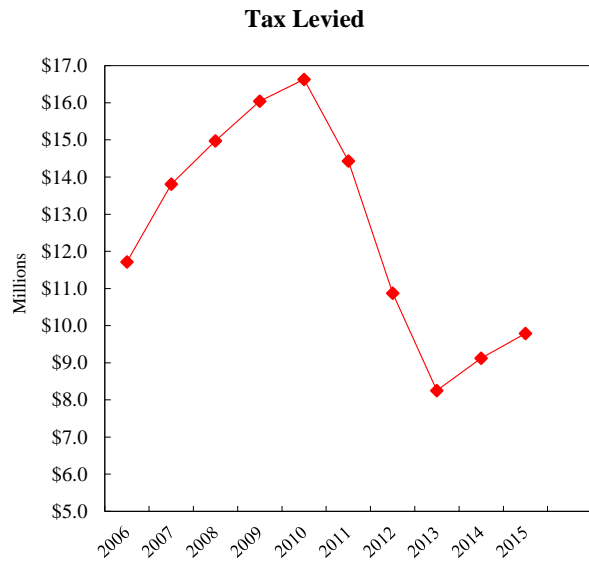
Source: Santa Clara County Book of Tax Rates

ASSESSEE NAME	2010/11		2011/12		2012/13		2013/14		2014/15	
	Taxable	Percentage	Taxable	Percentage	Taxable	Percentage	Taxable	Percentage	Taxable	Percentage
	Assessed	of Total City	Assessed	of Total City	Assessed	of Total City	Assessed	of Total City	Assessed	of Total City
	Value	Value	Value	Value	Value	Value	Value	Value	Value	Value
Sobrato Interests IV/Sobrato Land Holdings	\$150,781,092	1.87%	\$157,554,525	1.93%	\$157,559,245	1.86%	\$169,809,676	2.01%	\$20,869,338	0.21%
Boccardo Corporation	\$36,839,021	0.46%	\$37,173,877	0.46%	\$37,550,368	0.44%	\$38,617,912	0.46%	\$38,772,905	0.40%
Knowles Los Gatos LLC	\$45,778,757	0.57%	\$46,123,468	0.57%	\$47,045,934	0.56%	\$47,986,850	0.57%	\$48,204,708	0.49%
SRI Old Town LLC	\$29,556,155	0.37%	\$29,778,712	0.37%	\$30,374,286	0.36%	\$30,981,771	0.37%	\$31,122,427	0.32%
CH Realty IV Downing LP	\$19,000,000	0.24%	\$19,143,068	0.23%	\$19,525,927	0.23%	\$19,916,443	0.24%	-	0.00%
Hercules Holding II LLC	\$25,865,452	0.32%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Health Care REIT Inc,	\$19,720,749	0.25%	\$19,869,245	0.24%	\$19,223,348	0.23%	\$20,671,960	0.24%	\$20,765,810	0.21%
750 University LLC	\$20,950,229	0.26%	-	0.00%	\$12,137,999	0.14%	\$18,600,000	0.22%	\$19,000,000	0.19%
Grosvenor USA Ltd.	\$20,909,185	0.26%	\$21,066,630	0.26%	\$22,437,962	0.27%	\$22,886,720	0.27%	\$22,990,624	0.24%
Alberto Way Holdings LLC	\$20,877,418	0.26%	\$21,034,623	0.26%	\$23,145,064	0.27%	\$23,607,964	0.28%	\$23,715,141	0.24%
D&K Los Gatos LLC	\$20,351,651	0.25%	\$15,284,324	0.19%	\$15,590,010	0.18%	\$15,901,809	0.19%	\$15,974,003	0.16%
CHL Ventures LP	\$20,115,163	0.25%	\$20,266,630	0.25%	\$20,671,962	0.24%	-	0.00%	-	0.00%
San Jose Water Works	\$23,313,978	0.29%	\$29,369,137	0.36%	\$30,882,009	0.36%	\$33,626,381	0.40%	\$36,693,453	0.38%
Toll House Hotel LLC	\$15,848,626	0.20%	\$15,696,089	0.19%	-	0.00%	-	0.00%	-	0.00%
Grade Way Associations VI	\$14,400,050	0.18%	\$14,508,482	0.18%	\$14,798,651	0.17%	\$15,094,623	0.18%	\$15,163,152	0.16%
Lyon Baytree Apartments LLC	\$14,111,407	0.18%	\$14,177,039	0.17%	\$14,430,123	0.17%	\$14,674,716	0.17%	-	0.00%
KSL Capital Partners	\$39,960,114	0.50%	\$41,698,751	0.51%	\$42,532,721	0.50%	\$43,383,370	0.51%	\$43,580,326	0.45%
Los Gatos Hotel Corp.	\$15,978,009	0.20%	\$15,683,979	0.19%	\$15,617,134	0.18%	\$18,134,182	0.21%	\$15,573,314	0.16%
David A. and Shari Flick Trustee	\$14,614,447	0.18%	\$14,724,487	0.18%	\$15,018,971	0.18%	-	0.00%	\$15,388,884	0.16%
Pter R. Hofman	\$13,247,124	0.16%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Paul H. Roskoph	-	0.00%	\$12,926,457	0.16%	\$13,416,452	0.16%	-	0.00%	-	0.00%
Good Samaritan Hospital LP	-	0.00%	\$19,372,795	0.24%	\$19,530,183	0.23%	\$19,710,897	0.23%	\$19,602,594	0.20%
Windrose Los Gatos Properties LLC	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Park Row East Apartments Ltd.	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
LG Business Park LLC	-	0.00%	18,342,931.00	0.23%	-	0.00%	\$47,276,977	0.56%	\$39,347,485	0.40%
Green Eyes LLC	-	0.00%	-	0.00%	\$12,542,555	0.15%	\$12,793,404	0.15%	-	0.00%
Go and Kay Karou Sasaki	-	0.00%	-	0.00%	-	0.00%	\$22,752,809	0.27%	-	0.00%
Ann R. Desantis	-	0.00%	-	0.00%	-	0.00%	\$13,823,779	0.16%	-	0.00%
DS Downing Los Gatos LLC	-	0.00%	-	0.00%	-	0.00%	-	0.00%	\$20,006,861	0.20%
El Camino Hospital	-	0.00%	-	0.00%	-	0.00%	-	0.00%	\$20,803,609	0.21%
LG Hotel LLC	-	0.00%	-	0.00%	-	0.00%	-	0.00%	\$15,448,057	0.16%
SI 32 LLC	-	0.00%	-	0.00%	-	0.00%	-	0.00%	\$150,563,119	1.54%
Total - Principal taxpayers	\$ 582,218,627	7.24%	\$ 583,795,249	7.16%	\$ 584,030,904	6.90%	\$ 650,252,243	7.68%	\$ 633,585,810	6.49%
Total - All real properties assessed by the Town (1)	\$8,043,793,200		\$8,151,530,237		\$8,464,491,112		\$9,237,887,980		\$9,766,765,025	

(1) Assessed value includes only net secured real properties.

(2) Excludes the value of tax-exempt properties

Source Data: California Municipal Statistics, Inc.



Fiscal Year	Town Property Tax Levied and Collected	Redevelopment Property Tax Levied and Collected	Total Property Tax Levied and Collected	Value of Town Property subject to Local Tax Rate	Value of Redevelopment Agency Property Subject to Local Tax Rate	Value of Property Subject to Local Tax Rate
2004	4,834,464	4,376,896	9,211,361	5,480,295,734	753,210,332	6,233,506,066
2005	5,348,483	5,013,350	10,361,833	5,834,517,887	804,306,862	6,638,824,749
2006	5,739,846	5,976,062	11,715,909	6,446,525,005	897,448,660	7,343,973,665
2007	6,386,562	7,425,925	13,812,488	7,034,530,942	996,479,040	8,031,009,982
2008	6,901,935	8,072,176	14,974,111	7,594,588,066	1,081,483,541	8,676,071,607
2009	7,465,403	8,574,251	16,039,654	8,166,393,709	1,096,883,582	9,263,277,291
2010	7,608,137	9,022,863	16,630,999	8,317,387,662	1,134,135,499	9,451,523,161
2011	7,567,880	6,861,650	14,429,530	8,262,045,836	1,117,973,351	9,380,019,187
2012	7,520,265	3,349,254	10,869,519	8,369,756,750	1,109,305,673	9,479,062,423
2013	8,253,442	-	8,253,442	8,676,688,641	1,167,752,021	9,844,440,662
2014	9,120,626	-	9,120,626	9,462,896,402	1,249,873,303	10,712,769,705
2015	9,787,519	-	9,787,519	9,995,113,547	1,318,214,863	11,313,328,410

Sources: Santa Clara County Auditor-Controller Office and the Town of Los Gatos

Fiscal Year	Governmental Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	1992 Certificate of Participation	2002 Certificate of Participation	2010 Certificate of Participation	Total Governmental Activities			
2006	1,270,000	10,075,000		11,345,000	11,345,000	7.9%	389.65
2007	1,085,000	9,845,000		10,930,000	10,930,000	7.3%	372.25
2008	890,000	9,610,000		10,500,000	10,500,000	6.2%	348.03
2009	685,000	9,370,000		10,055,000	10,055,000	5.5%	329.70
2010	470,000	9,120,000	15,675,000	25,265,000	25,265,000	19.4%	820.24
2011	240,000	8,865,000	15,675,000	24,780,000	24,780,000	19.7%	835.72
2012	-	-	-	-	-	0.0% ¹⁾	0.00
2013	-	-	-	-	-	0.0%	0.00
2014	-	-	-	-	-	0.0%	0.00
2015	-	-	-	-	-	0.0%	0.00

¹⁾ Debt was transferred to the Successor Agency Trust Fund as a part of the RDA dissolution

2014/15 Assessed Valuation:	\$9,995,113,547		Estimated Share of Direct and Overlapping Debt at June 30, 2015
DIRECT AND OVERLAPPING BONDED DEBT:	% Applicable (1)	Debt at June 30, 2015	
Overlapping Tax & Assessment Debt			
Santa Clara County	2.799%	\$ 799,180,000	\$ 22,369,048
West Valley-Mission Community College District	9.909%	\$ 424,754,350	\$ 42,088,909
Campbell Union High School District	8.227%	\$ 146,910,000	\$ 12,086,286
Los Gatos-Saratoga Joint Union High School District	33.499%	\$ 79,245,000	\$ 26,546,283
Cambrian School District	0.383%	\$ 54,989,944	\$ 210,611
Campbell Union High School District	8.574%	\$ 170,131,249	\$ 14,587,053
Los Gatos Union School District	70.280%	\$ 98,870,000	\$ 69,485,836
Saratoga Union School District	0.038%	\$ 37,170,075	\$ 14,125
Union School District	20.673%	\$ 91,809,422	\$ 18,979,762
Santa Clara Valley Water District Benefit Assessment District	2.799%	\$ 106,690,000	\$ 2,986,253
Total Overlapping Tax and Assessment Debt			\$ 209,354,166
Overlapping General Fund Debt			
Santa Clara County General Fund Obligations	2.799%	\$ 707,613,810	\$ 19,806,111
Santa Clara County Pension Obligations	2.799%	\$ 371,443,651	\$ 10,396,708
Santa Clara County Board of Education Certificates of Participation	2.799%	\$ 9,030,000	\$ 252,750
West Valley-Mission Community College District General Fund Obligations	9.909%	\$ 64,660,000	\$ 6,407,159
Campbell Union High School District General Fund Obligations	8.227%	\$ 8,953,047	\$ 736,567
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	33.499%	\$ 6,995,000	\$ 2,343,255
Campbell Union School District General Fund Obligations	8.574%	\$ 3,425,000	\$ 293,660
Saratoga Union School District Certificates of Participation	0.038%	\$ 4,925,000	\$ 1,872
Santa Clara County Vector Control District Certificates of Participation	2.799%	\$ 3,085,000	\$ 86,349
Midpeninsula Regional Open Space Park District General Fund Obligations	4.868%	\$ 127,086,851	\$ 6,186,588
Total Gross Overlapping General Fund Debt			\$ 46,511,019
Less: Santa Clara County Supported Obligations			\$ 14,132,112
Total Overlapping General Fund Debt			\$ 32,378,907
Overlapping Tax Increment Debt (Successor Agency)			
Town of Los Gatos Certificated of Participations			\$ 20,875,000
Total of Overlapping Tax Increment Debt			\$ 21,865,000
Total Direct Debt			\$0
Total Gross Overlapping Debt			\$ 276,740,185
Total Net Overlapping Debt			\$ 262,608,073
Gross Combined Total Debt			\$ 276,740,185 (2)
Net Combined Total Debt			\$ 262,608,073

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue bonds and non-bonded capital lease obligations.

Ratios to 2014/15 Assessed Valuation:

Total Overlapping Tax and Assessment Debt: 2.09%
Total Direct Debt: 0.00%
Gross Combined Total Debt: 2.77%
Net Combined Total Debt: 2.63%

Ratios to redevelopment Incremental Valuation (\$1,083,873,943):

Total Overlapping Tax Increment Debt: 1.93%

Source Data: California Municipal Statistics, Inc.

Town of Los Gatos
Legal Debt Margin Information,
Last Ten Fiscal Years
(In Thousands of Dollars)

Schedule 11

Legal Debt Margin Calculation
for Fiscal Year 2014/15

Assessed Value	9,195,026,300
Debt limit	1,379,253,945
Debt applicable to limit:	-
Legal Debt Margin	<u>1,379,253,945</u>

	Fiscal Year									
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Debt limit	842,159	932,872	1,019,970	1,102,766	1,185,727	1,204,551	1,195,035	1,216,131	1,263,138	1,379,253.95
Debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	<u>842,159</u>	<u>932,872</u>	<u>1,019,970</u>	<u>1,102,766</u>	<u>1,185,727</u>	<u>1,204,551</u>	<u>1,195,035</u>	<u>1,216,131</u>	<u>1,263,138</u>	<u>1,379,253.95</u>
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Notes:

- (1) The Town of Los Gatos is a general law city and has a debt limit of 15%.
(2) Excludes RDA assessed valuation and debt transferred to the Successor Agency trust as a part of the RDA dissolution.

Town of Los Gatos
Demographic and Economic Statistics
Last Ten Fiscal Years

Schedule 12

Fiscal Year Ended	Population (1)	Personal Income (thousands of dollars) (2)	Per Capita Personal Income (3)	Median Age (4)	Public School Enrollment (5)	County Unemployment Rate (6)
2006	29,116	1,644,239	56,472	44.19	5,718	4.7%
2007	29,362	1,764,862	60,107	44.64	5,742	4.8%
2008	30,170	1,781,780	59,058	44.86	5,870	6.0%
2009	30,497	1,701,153	55,781	45.35	6,006	11.8%
2010	30,802	1,787,070	58,018	45.09	6,100	11.3%
2011	29,651	1,833,410	61,833	44.22	6,184	10.3%
2012	29,808	1,854,892	62,228	42.64	6,352	8.7%
2013	30,247	2,140,641	70,772	45.80	6,420	6.8%
2014	30,443	2,267,912	74,497	45.80	6,522	5.7%
2015	30,505	2,197,885	72,050	46.10	6,622	3.8%

Source:

- (1) California State Dept. of Finance - Population Research Unit (January 2015)
- (2) California State Dept. of Finance - Estimate equals county per capita average times population
- (3) California State Dept of Finance - county per capita at: labormarketinfo.edd.ca.gov
- (4) Claritas demographic snapshot report
- (5) Los Gatos Saratoga Joint Union and Los Gatos Union Elementary School Districts
- (6) State of California, Employment Development Dept., Labor Market Info. Div.

Major Employers	2008/09		2009/10		2010/11		2011/12		2012/13		2013/14		2014/15	
	Percentage of Total Town		Percentage of Total Town		Percentage of Total Town		Percentage of Total Town		Percentage of Total Town		Percentage of Total Town		Percentage of Total Town	
	Employees	Employment	Employees	Employment	Employees	Employment	Employees	Employment	Employees	Employment	Employees	Employment	Employees	Employment
Columbia Health Care Assoc/Mission Oaks Hospital	2,000	12.31%	2,000	12.17%	2,000	12.60%	2,000	13.89%	2,000	13.29%	2,000	13.52%	-	0.00%
El Camino Hospital, Los Gatos	800	4.92%	700	4.26%	700	4.41%	700	4.86%	700	4.65%	700	4.73%	560	3.73%
Los Gatos Union School District	300	1.85%	300	1.83%	300	1.89%	275	1.91%	275	1.83%	237	1.60%	273	1.82%
Los Gatos-Saratoga High School District	300	1.85%	300	1.83%	300	1.89%	270	1.88%	270	1.79%	256	1.73%	157	1.05%
Netflix	-	0.00%	280	1.70%	800	5.04%	800	5.56%	900	5.98%	825	5.58%	1,530	10.19%
Safeway	200	1.23%	250	1.52%	250	1.57%	250	1.74%	250	1.66%	250	1.69%	314	2.09%
Alain Pinel Realtors	-	0.00%	220	1.34%	220	1.39%	150	1.04%	150	1.00%	156	1.05%	-	0.00%
Verizon	200	1.23%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Courtside Tennis Club	200	1.23%	200	1.22%	200	1.26%	200	1.39%	200	1.33%	295	1.99%	440	2.93%
Town of Los Gatos	189	1.16%	148	0.90%	138	0.87%	136	0.94%	138	0.92%	144	0.97%	157	1.05%
Whole Foods	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	179	1.19%
Vasona Creek Health Care Center	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	233	1.55%
Good Samaritan Regional Cancer Center	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	200	1.33%

Source: Town of Los Gatos, Finance Department and Muniservices

Town of Los Gatos
Full-time-Equivalent Employees by Function/Program
Last Ten Fiscal Years

Schedule 14

<u>Function/Program</u>	Full-time-Equivalent Employees as of June 30									
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
General Government	19.95	20.75	20.50	19.95	18.35	18.90	20.15	20.40	20.73	20.97
Police	62.00	62.00	61.00	61.00	60.00	59.50	60.50	58.00	57.50	60.00
Culture and Recreation	4.25	4.25	5.25	5.25	5.25	3.25	-	-	-	-
Economic Development	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-	0.50	0.63
Library	10.35	10.35	10.35	10.35	10.35	8.60	8.60	8.60	10.30	10.80
Planning	18.80	18.80	18.80	18.80	17.80	15.00	16.00	17.50	17.50	19.50
Public Works	37.00	34.00	34.00	37.00	35.00	32.50	32.00	31.00	31.50	32.00
Total	<u>153.35</u>	<u>151.15</u>	<u>150.90</u>	<u>153.35</u>	<u>147.75</u>	<u>138.75</u>	<u>138.25</u>	<u>135.50</u>	<u>137.53</u>	<u>143.90</u>

Full-time equivalent employment is calculated as one or more employee positions totaling one full year of service or approximately 2,080 hours a year.

Town of Los Gatos
Operating Indicators
Last Seven Fiscal Years

Schedule 15

FUNCTION/PROGRAM

	Fiscal Year						
	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>
General government							
Building Permits Issued							
Residential Permits Issued	676	733	711	747	738	813	805
Residential Permits Value	48,162,274	51,090,808	42,974,043	66,072,341	75,227,889	87,307,822	76,896,111
Commercial Permits Issued	24	117	128	107	137	139	133
Commercial Permits Value	4,356,307	7,908,146	31,289,431	17,663,124	46,855,615	138,676,507	178,195,997
Publically Owned Permits Issued	2	11	11	-	-	-	-
Publically Owned Permits Value	2,308,160	5,732,014	40,000	-	-	-	-
Residential Parking Permits							
Number of Special Event Permits Issued	76	87	96	89	125	133	127
Number of Annual Permits Issued	752	686	713	1,223	1,320	1,376	1,570
City Clerk							
Number of Council Resolutions Passed	143	167	76	59	74	86	72
Number of Ordinances Passed	13	16	6	13	20	16	9
Number of Contracts Passed	197	206	218	227	220	196	222
General Services							
Number of Purchase Orders Issued	396	365	336	358	318	301	277
Police							
Physical Arrests	925	831	872	690	648	641	695
Parking Violations	11,148	11,512	14,377	12,938	11,991	14,421	13,321
Traffic Violations	2,588	3,008	2,718	2,908	3,333	4,747	4,633
DUI Arrests	88	110	98	89	86	62	48
Library							
Circulated e-audiobooks	1,516	1,852	1,994	3,388	4,774	2,414 *	5,867
Other Public Works							
Street Resurfacing/Overlay/Reconstruction (miles)	3.5	4.7	4.7	8.0	8.0	10.0	1.8
ADA Compliance: Curb Ramps	9	13	17	19	19	19	23
Traffic Circles	1	1	1	1	1	-	1
Street Poles	1,575	1,605	1,708	1,611	1,611	1,611	1,609
Planning and Development Department							
Building & Safety Inspections Performed	10,367	9,055	10,977	11,738	11,902	12,764	11,652
Redevelopment: Number of active projects	3	3	1	-	-	-	-

* July 2013 the Library separated from Northern CA Digital Library, Patrons had no longer access to collections of multiple libraries. By 2014 the Library has expanded its contents giving patrons access to more materials.

Source: Town of Los Gatos, Finance Department

Town of Los Gatos
Capital Asset Statistics by Function/Program
Last Six Fiscal Years

Schedule 16

Function/Program	Fiscal Year					
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Police						
Number of Stations	2	2	2	2	2	2
Number of Patrol Units	14	14	14	14	14	14
Parking Enforcement Vehicles	2	2	2	2	2	2
Other Public Works						
Streets (miles)	112	112	112	112	112	112
Streetlights	2,112	2,115	2,116	2,116	2,109	1,609
Traffic Signals	28	28	29	29	29	29
Parks and Recreation						
Number of Parks	12	12	12	12	12	12
Number of Community Centers	1	1	1	1	1	1
Parking						
Number of Parking Garages	1	1	1	1	1	1
Number of Parking Lots	22	22	22	22	22	22
Number of Off Street Parking Garage Spaces	1,126	1,126	1,126	1,126	1,126	1,126

Source: Town of Los Gatos, Finance Department

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Other Independent Auditor's Reports



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and Members of the
Town Council of the Town of Los Gatos
Los Gatos, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Town of Los Gatos (the "Town") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated February 12, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not



express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

San Jose, California
February 12, 2016

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